Canada - nation-building in a federal welfare state

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Summary

In Canada, three distinct models of federalism govern different social programmes: *classical federalism*, with programmes run exclusively by one level of government; *shared costs federalism*, with the federal government financially supporting provincial programmes; and *joint-decision federalism*, where formal approval by both levels of government is mandatory before any action can take place. Each of these models creates different decision rules, altering the mix of governments and ideologies at the bargaining table, redistributing power among those who have a seat at the table, and requiring different levels of consensus for action. The result has been three separate kinds of interactions between institutions and policy during the postwar era of welfare state expansion.

As in the era of expansion, the new politics of social policy in the 'silver age' had to flow through the three distinctive institutional filters created by federal institutions, helping to explain the uneven impact of retrenchment in Canada. Exclusively federal programmes were unprotected by intergovernmental relations and fully exposed to shifts in national politics, with dramatic cuts especially in unemployment benefits. In contrast, joint-decision federalism helped protect contributory pensions from radical restructuring; while shared-cost federalism made it possible to preserve the basic model of the health care system, at least in respect of hospital, physician and diagnostic services, if not always in respect of the generosity of funding.

Zusammenfassung

Drei unterschiedliche Föderalismusmodelle charakterisieren Kanadas Sozialpolitik: Politikverflechtung, klassischer (dualer) Föderalismus und 'shared costs federalism'. Jedes dieser Modelle generiert unterschiedliche Entscheidungsregeln, Akteurs- und Machtkonstellationen sowie Konsensschwellen für politisches Handeln und hat folglich sowohl die Expansion des kanadischen Wohlfahrtsstaates als auch dessen Rückbau unterschiedlich beeinflusst. Während die Politikverflechtung auf dem Gebiet der beitragsfinanzierten Renten sowohl den Programmausbau als auch den –rückbau gebremst hat, wurden die ausschließlich vom Bund regulierten Programme sowohl in der Expansions- als auch in der Konsolidierungsphase maßgeblich von den politischen Kräfteverhältnissen auf der nationalen Ebene bestimmt. Der in der Gesundheitspolitik praktizierte shared costs federalism bot in der Expansionsphase Raum für sozialpolitische Innovationen auf der Provinzebene, die einem sozialdemokratischen Gesundheitssystem Vorschub leisteten. Dieses Modell blieb in seinen Grundzügen in der Rückbauphase zwar bestehen, gleichzeitig zog sich Ottawa jedoch aus der Finanzierung des Gesundheitswesens zurück.

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1 Introduction

Canadians developed their version of the welfare state in the context of a vibrant federal state, with strong governments at both the federal and provincial level. Their experience highlights in fascinating ways the reciprocal interplay between federalism and social policy. The territorial nature of Canadian politics and its federal institutions have left an enduring imprint on social programs in the country. But social policy in turn has reshaped the federal state, contributing to a more centralised system and playing an integrative role in a country otherwise shaped by powerful centrifugal forces. This chapter explores both of these sides of the federal welfare state in Canada.

In exploring the impact of federalism on social policy, the Canadian case underscores the need for more nuanced analysis than is found in much of the comparative literature of the welfare state, which is summarised in the Introduction to this book. Attention normally focuses on simple dichotomies: federal versus non-federal, centralised versus decentralised, concentrated power versus multiple veto points. It is widely argued that federal, decentralised and/or fragmented decision-making inhibited the expansion of the welfare state in the twentieth century, but has slowed the processes of restructuring in the contemporary period. Such propositions do find echoes in Canada. In particular, decentralisation helped slowed the pace of development in the first half of the 20th century.

The primary lessons to be drawn from Canadian experience, however, emerge from the modern social programs put in place in the second half of the century. Canada did not develop a single, integrated public philosophy of federalism in this period, and federal-provincial relations in social policy incorporate three distinct models, each with its own decision rules. At any point in time, governments were shaping or reshaping different programs according to different rules and processes. Canada therefore constitutes a natural laboratory in which to analyze the implications of different models of federalism. As we shall see, the different set of incentives and constraints inherent in different models help explain a number of puzzles about the Canadian welfare state, especially the striking contrast between the liberal nature of the country's income security programs and the more social-democratic character of its health care, and the highly uneven impact of retrenchment in recent years. The lesson for the wider literature is that it is critical to understand that different models of federalism have distinctive implications for the welfare state, that these different models can coexist within individual federations.

Canadian experience also highlights the reciprocal influence of the welfare state on the federal state, a relationship largely ignored in the literature. At the most obvious level, the arrival of the welfare state helped to centralise the federation during the middle decades of the 20th century. But at a deeper level, national social programs have also played a role in defining the nature of the political communities on which the federal state rests. Political identities are highly contested in Canada, and social programs have emerged as instruments of nation-building. For the central government, social policy has been seen as an instrument of territorial integration, part of the social glue holding together a vast country subject to powerful centrifugal tendencies. National social programs create a network of relations between citizens and the central government throughout the country, helping to define the boundaries the national political community and enhancing the legitimacy of the federal state. However, provincial governments, especially the Quebec government, have also seen social policy has an instrument for building a distinctive community at the regional level, one reflecting the linguistic and cultural dynamics of *québécois* society. In Canadian experience, therefore, both levels of government have seen social policy not only as an instrument not only of social justice but also of statecraft, to be deployed in competitive and sometimes conflictual processes of nation-building.

The paper develops these themes in five sections. The first section sets the context by describing the territorial dimensions of Canadian politics and its federal institutions. The second section examines the impact of federalism on the expansion of the welfare state, and the third section examines the impact on the politics of restructuring during the last quarter century. The fourth section reverses the perspective, exploring the impact of the welfare state on Canadian federalism. A final section then pulls together the threads of the argument.

2 Territorial politics and Canadian federalism

In some ways, the political economy of social policy in Canada resemble the patterns found in many other Western democracies. Social programs have been shaped by political struggles and coalitions among a familiar cast of characters, including political parties, business interests, organised labour, social welfare groups, the women's movement and others. More than in many countries, however, Canadian politics are also territorial politics, rooted in linguistic and regional divisions. To borrow Livingstone's language, Canada is not only a federal state but a federal society (Livingstone 1956). The division between English and French-speaking communities has been an elemental feature of politics in northern North America since the defeat of the French by the British in 1763, and the formation of the federation in 1867 was seen by many French-Canadian leaders as a compact between two peoples. Although there are small francophone communities in several provinces, the primary linguistic divide is now between Quebec and the rest of Canada. The French-speaking people of Quebec have come to see themselves as a distinct society with their own history, culture and political identity. A nationalist ethos pervades the entire political spectrum within the province, and a strong separatist movement has on occasion threatened the survival of a single Canadian state.

Wider conflicts among the regions of the country are also as old as the federation. Regional divisions are rooted in part in the geography of a country much larger than all of Europe. Although modern communication and transportation have diminished the salience of geography, they have not eliminated the political distance between the centre and the peripheries. This natural inheritance has been reinforced by economic and cultural development. Much of the economic history of the country can be written in terms of regionally uneven development and enduring tensions among the industrial heartland of central Canada, the resource economy of the west, and the weaker economies of Atlantic

Canada. Social differences overlay economic ones, as different patterns of settlement and immigration bestowed distinctive ethnic blends and cultures on the regions.

Territorial politics matter for Canadian social policy. Most importantly, the salience of territorial politics helps to explain the historic failure of national political life to polarise on class lines. Territorial divisions have cross-cut class-based politics, and the politics of equality have always centred as much on regional inequalities as class inequalities. As a result, the agenda of national integration, with its constant need to balance linguistic and regional interests, has tended to diffuse efforts to focus debate on a left-right basis. Historically, the dominant political parties have represented coalitions of regional as well as class interests, and have tended to govern from the middle of the political spectrum. The centrist Liberal party has been particularly adept in the art of brokerage politics, accommodating regional interests and bending to the left or right as political currents shift. The party dominated federal politics for most of the twentieth century, yielding only occasionally to its historic adversary, the Conservatives. Challenges to these traditional parties have come from parties of regional protest, which have emerged suddenly to play important -- although often temporary -- roles on the national stage. The party system was realigned by such populist surges in the 1920s, the 1960s and the 1990s.

In this context, the political left has had problems establishing itself as a national force. Regional divisions have long been a barrier to the growth of a truly national labour movement, and contemporary social movements representing women and other activists have been similarly fragmented.[1] In English Canada, the Canadian Commonwealth Party (CCF) was founded in the 1930s by a coalition of farmer organisations, labour unions and socialist intellectuals, and was restructured in the early 1960s as the New Democratic Party (NDP), a more conventional social-democratic party with organic links to organised labour. However, the CCF/NDP has never governed nationally, and has held power in only four of the ten provinces. Although the party played a decisive role at several historical junctures in the politics of social policy, its overall role has always been a secondary one. Within Quebec, the social-democratic part of the spectrum has been occupied by nationalist and increasingly sovereignist parties. As a result, the national question has complicated social-democratic alliances across the linguistic divide, although informal coalitions of the Quebec government and NDP provincial governments have been important at times.

These territorial politics have been reflected and amplified by the structure of Canadian federalism. Authority over social policy is divided between the federal government, ten provincial governments and three northern territories in ways that make Canada one of the most decentralised federations in the world. From the outset, the *Constitution Act, 1867* gave the provinces a central role in social policy, with specific sections granting them authority over education, hospitals and related charitable institutions. In addition, the courts extended the provincial role by subsuming social policy under provincial powers over ‘property and civil rights’ and ‘matters of a local or private nature’. In a key decision in

[1] Cf. McIntosh (1999). On the women’s movement, see Vickers (1994), and Dobrowolsky (2000).

1937, the courts struck down a federal social insurance program as intruding on these provincial powers.

Despite the centrality of provincial jurisdiction, the federal government also has a significant presence in social policy. Amendments to the Constitution in the middle of the twentieth century gave federal authorities full jurisdiction over unemployment insurance and substantial jurisdiction over contributory pensions. Federal tax powers also constitute a powerful instrument in redistributive policies, especially with the development of refundable tax credits in recent decades. However, the cornerstone of the federal role has been implicit rather than explicit in the constitution. According to Canadian constitutional doctrine, "the federal Parliament may spend or lend its funds to any government or institution or individual it chooses, for any purpose it chooses; and it may attach to any grant or loan any conditions it chooses, including conditions it could not directly legislate" (Hogg 2001). This convention, known as the doctrine of the spending power, has been challenged both politically and judicially. In the mid-1950s, for example, a Quebec royal commission asked: "What would be the use of a careful description of legislative powers if one of the governments could get around it and, to some extent, annul it by its taxation methods and its fashion of spending?"(Royal Commission 1956). Nevertheless, court decisions repeatedly sustained the federal position, and the spending power became the constitutional footing for a number of central pillars of the welfare state. It has sustained federal benefits paid directly to citizens, such as family allowances; it provides constitutional legitimacy to shared-cost programs through which the federal government supports provincial social programs; and at the outset it provided authority for equalisation grants, which are federal transfers to the poorer provinces designed to enable them to provide average levels of public services without having to resort to above-average levels of taxation.[2]

With federal and provincial governments both engaged in social policy, much depends on the mechanisms through which they manage their interdependence. Canada was the first country to fuse federal institutions with the Westminster system of parliamentary government, which concentrates power in the hands of executives at both the federal and provincial levels. The prime minister and premiers, their cabinets and senior officials dominate the policy process in their respective governments; and it is these executives who manage federal-provincial relations through elaborate diplomacy and federal-provincial agreements which can rival international treaties in their complexity. Compared to some federations, however, these intergovernmental processes tend to be relatively informal and unstructured, with few formal venues, no firm decision rules, and no effective mechanisms for resolving disputes and roadblocks.

There are few counterbalances to executive dominance of intergovernmental relations. Unlike the German or US systems, there is little space for the mediation of territorial disputes through legislatures. Members of the parliamentary caucus of the governing party

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[2] Since the adoption of a Section 36 of the Constitution in 1982, equalisation grants have specific constitutional footing and no longer depend on the federal spending power.

play a role, but MPs from a province do not speak for their provincial government. Indeed, they may be political opponents. Moreover, the governing party is often weak in certain regions, depriving those parts of the country of champions around the cabinet table and in the party caucus. Furthermore, the upper chamber of Parliament, the Senate, remains an unelected body without the political legitimacy to serve as a forum for the resolution of regional or intergovernmental disputes. Nor does the party system integrate levels of government. Parties at the two levels are highly autonomous: federal and provincial parties bearing the same name are separate organisations, both in law and in political reality. Their leaders have separate career paths; their finances are unrelated; and their electoral bases are distinct. In several provinces, completely different parties operate in the federal and provincial arenas. Consequently, there are few, if any, vertical party mechanisms through which intergovernmental disputes can be managed.

As a result, many of the country's social programs are forged in the crucible of federal-provincial negotiations. Such a decision-making process tends to be particularly responsive to the political and bureaucratic interests of the governments at the table, and to social and economic issues that can be defined in regional terms. Such issues are readily championed by provincial governments. In contrast, other social interests – organised labour, women's groups, welfare rights organisations – have long complained of their relative exclusion.[3]

As emphasised at the outset, however, federal-provincial relations differ sharply from one social program to another. Indeed, three distinct models of federal-provincial relations are embedded in the welfare state, each with its own decision rules:

- Classical federalism: Some programs are delivered by the federal or provincial governments acting independently within their own jurisdiction: unemployment insurance, child benefits, non-contributory old age pensions at the federal level; workers' compensation at the provincial level. This model involves unilateral decisions by both levels of government, with minimal efforts at coordination even when decisions at one level have implications for the other.
- Shared-cost federalism: Under this model, the federal government offers financial support to provincial governments on specific terms. In practice, the substance of such programs tends to be hammered out in bargaining between the two levels. In formal terms, however, the model involves each government making separate decisions. The federal government decides when, what and how to support provincial programs; and provincial governments decide whether to accept the money and the terms. As a result, this model contains the potential for unilateralism, as became clear when the federal government began to cut its financial commitments to provincial programs from the mid-1970s on.
- Joint-decision federalism: In this model, the formal agreement of both levels of government is required before any action is possible. Unilateralism is not an option here. The major Canadian example is the Canada Pension Plan. This joint decision-making is analogous to the German system. The institutions differ, since the provincial governments are not represented in the upper chamber of the national legislature, but

3 The classic reference is Richard Simeon 1972.

the central dynamic is similar. Nothing happens unless formal approval is given by both levels of government.

As we shall see, each of these models of intergovernmentalism has had remarkably different implications for the expansion and the restructuring of the welfare state.

3 Federalism and the expansion of the welfare state

In analyzing the impact of federalism on the expansion of social programs, it is useful to contrast two historical periods: the decentralised era that lasted until 1939, which was characterised by a slow start to social-policy development; and the expansionist phase from 1940 until the mid-1970s, when income security programs and health care developed rapidly but also moved along separate pathways.

3.1 Decentralised welfare and a slow start

In terms of comparative social policy, Canada had a slow start. Welfare provision in the first decades of the twentieth century was still largely based on 'relief' organised at the local level by municipalities, private charities and religious institutions (see Boychuk 1998; Guest 1997). The introduction of modern social programs came much later than the German initiatives of the 1880s, the Australian innovations in 1901-12, and even the US New Deal of the 1930s. Whether Canada deserves the label 'welfare state laggard' is debatable, since its transition to an industrial economy and urban society, which underlay the development of social programs in most countries, also came later than in many countries.[4] Nevertheless, the first stages in the construction of the Canadian welfare state were halting and incomplete, and major programs for the population as a whole had to wait until the Second World War and the decades following.

A number of factors contributed to the slow start. The country was only beginning the transition from a predominantly agricultural economy; and national politics were dominated by conservative interests, parties and ideas. As a result, the social basis for a large coalition in favour of welfare was still missing. As Figure 1 indicates, as late as 1930 only 14 per cent of the non-agricultural labour force was unionised; and organised labour remained regionally diverse and ideologically splintered. Moreover, relations between unions, farmers and social reformers were uneasy, narrowing the scope for a powerful cross-class alliance based on labour and agricultural organisations (Orloff 1993). Women's groups, veterans' organisations and church groups were pioneers in campaigning for social reform, but they influenced politics from the margin, not the centre.

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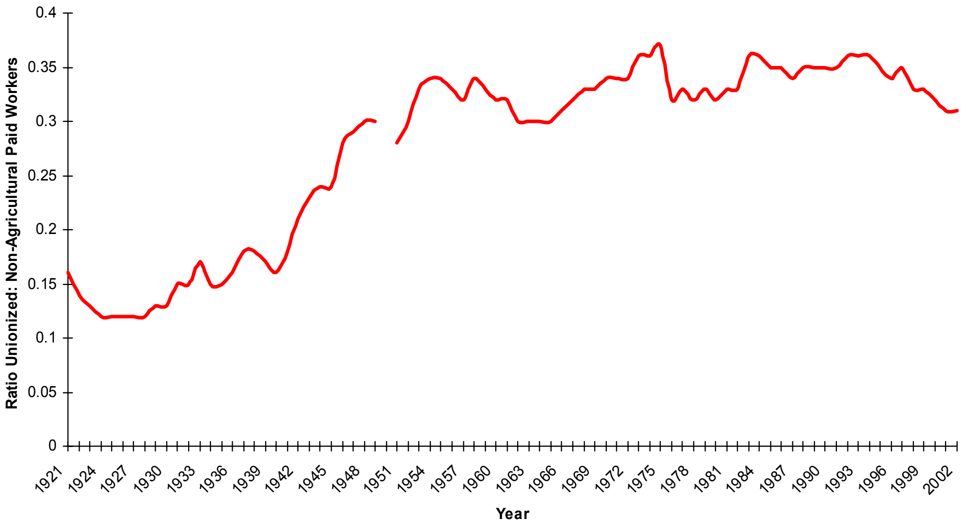
4 On the relationship between Rostow's stages of economic development and the timing of the introduction of major social programs in Canada and other western nations, see Keith Banting (1987).

Figure 1: *Union density: unionised workers as a percentage of the non-agricultural labour force (1921-2002)*



However, decentralisation also constrained the response to social needs. Provincial governments were certainly not paralyzed in this period, and several welfare initiatives did emerge through innovation and diffusion at that level. In 1914, workers' compensation was introduced in Ontario, the most industrialised province, providing benefits to injured workers based on contributions from employers. Diffusion across the country was slow, but by 1940 workers' compensation modelled on the Ontario program existed in every province except Prince Edward Island. The inter-war years also saw the diffusion of provincial minimum wage laws and Mothers' Allowances, a categorical means-tested benefit for widowed mothers with dependent children. Mothers' Allowances were introduced in response to regional campaigns led by women's groups in Manitoba in 1916, Saskatchewan in 1917, Alberta in 1919 and Ontario in 1920 (Strong-Boag 1979; Margaret Little 1998; James Struthers 1994).

Despite these early successes, provincial authorities clearly felt constrained by decentralised institutions. First, they were plagued by fiscal imbalances. Two of the three provincial welfare initiatives of this era, worker's compensation and minimum wage laws, did not require public financing at all. Only Mothers' Allowances were financed from provincial and municipal revenues, and the costs greatly exceeded initial estimates. Poorer provinces were especially vulnerable. Two of them – New Brunswick and PEI – still had not introduced Mothers' Allowances by the outbreak of the Second World War and, as Table 1 indicates, sharp regional differences in benefits levels quickly developed among the existing plans. The fiscal constraints were made even clearer by the mass unemployment of the depression years. In the worst year, 1933, nearly one quarter of the country's labour force was unemployed, and an estimated 15 percent of the population was on some form of relief. The burden swamped existing relief mechanisms. The problems were undoubtedly exacerbated by the tradition of municipal responsibility for relief, but the financial burdens would have been distorted even if provincial governments had taken over completely. As a royal commission reported in 1940, "the costs of relief varied inversely with the ability to meet them. In Western Canada where incomes fell most rapidly, relief costs were relatively the highest. The weight of the burden in Saskatchewan, the province most severely affected, was about five times as great as in the Maritimes and Ontario, the provinces least affected."(Royal Commission 1940: 163f.). The country lacked a mechanism for spreading risk across the country as a whole.

Table 1: *Average monthly provincial benefit levels (1942, 1949)*

Province	*Mothers Allowances 1942*	*Old Age Pensions 1949*
Prince Edward Island	--	34.46
Nova Scotia	28.55	35.33
New Brunswick	--	36.01
Quebec	26.64	37.63
Ontario	28.91	38.05
Manitoba	35.79	38.36
Saskatchewan	13.77	37.29
Alberta	22.96	37.87
British Columbia	39.19	37.26

Source: Keith Banting, *The Welfare State and Canadian Federalism* (note 8), Table 20.

Second, interwar provincial leaders were concerned about the mobility of labour and capital in a federal state. In 1924, the Saskatchewan government emphasised the problem in recommending federal leadership on pensions to a House of Commons committee. In 1927, the premier of Manitoba complained to the prime minister that: "If any City or Province singly adopted plans to solve unemployment, that City or Province would become the Mecca to which the unemployed in other cities or provinces would drift." (Banting 1987: 64).[5] Federal officials tended to agree: in 1931, the Prime Minister asserted that "insurance against unemployment, sickness and invalidity can never be successful if each province has a different system or if one province has a system and another does not" (Bennett 1931:1099f.). Warnings about regional economic competitiveness were sounded by commissions of inquiry at both the provincial and federal levels. In 1933, a Quebec commission argued that the introduction of family allowances "would perhaps place our manufacturers in a disadvantageous position with reference to other provinces", and that "ordinary prudence suggests that unemployment insurance should be federal in character" (Quebec Social Insurance Commission 1933: 203). A few years later, the federal Royal

5 See also Leslie Pal (1988), chapter 6. The obverse problem was that some families would not move to seek work, 'for stories abounded about families that had done so only to become lost in a no man's land, unable to satisfy the residency requirements of any municipality' (Thompson 1984: 255).

Commission on Dominion-Provincial Relations also recommended federal jurisdiction because of the danger of placing employers in one province "in a position of competitive disadvantage in comparison with employers in provinces where there are not contributory social services"(Royal Commission 1940: 36). Alain Noël has argued that such perceptions are not necessarily evidence of a real constraint, since perceptions "could just be erroneous" (1999: 199). Perhaps. But perceptions matter in politics.

Not surprisingly, pressure built for federal action. Initially, federal politicians tried to deflect the pressure. Except for the introduction of veterans' pensions after the First World War, they referred demands for old age pensions and unemployment protection back to the provinces as long as possible. In the case of unemployment, the mayors of major cities, who were on the front line of relief efforts, were shunted back and forth between provincial and federal offices. In 1930, a delegation of western mayors was rebuffed by the prime minister, who sent them home to lobby their provincial governments; and when in 1935 the Dominion Conference of Mayors demanded 'Relief from Relief' through complete federal responsibility for the unemployed, they were met with the same response. In the words one analyst, "it was Ottawa that jealously defended provincial rights while the premiers were centralist" (Struthers 1983: 209; see also Taylor 1979).

This game of jurisdictional hide-and-seek was not politically sustainable in the long term. Federal action on old-age pensions was forced in 1926-27, when the Liberal Government was in a parliamentary minority and depended for its survival on two labour MPs, who extracted action on pensions as the price for their support. The Old Age Pension program provided a means-tested pension of $20 per month for those 70 years of age and older. However, the federal government insisted on shared federal-provincial responsibility: Ottawa would pay 50 percent of the costs of provincial pensions that met its conditions. Provincial adoption was slow, taking nine years to produce country-wide coverage, with many poorer provinces joining only after 1931 when Ottawa raised its contribution to 75 percent of the costs (Orloff 1993, K. Bryden 1974). In the case of Quebec, the longest holdout, the concerns were cultural and jurisdictional. The provincial government insisted that such matters were best left to religious institutions and private charity, and that the plan infringed provincial jurisdiction. However, the pensions were popular with the Quebec electorate, and the government succumbed just before a provincial election in 1936 (Vigod 1979). By the late 1930s, therefore, a national system was in place. As Table 1 confirms, in contrast with the incomplete coverage and wide variations in the exclusively provincial Mothers Allowances, the federal-provincial pension provided comparable benefits across the country as a whole.

Federal inaction on unemployment benefits was also politically untenable. In 1930, the Liberal Prime Minister, Mackenzie King, lashed out at provincial demands for money for "alleged unemployment purposes" and declared that he "would not give … a five-cent piece" to provinces governed by the Conservatives.[6] Not surprisingly perhaps, the Liberals lost the federal election later that year. Their Conservative successors provided grants-in-aid

6 House of Commons Debates, Session 1930, vol II,: 1225-1228.

for provincial relief, following a precedent set in the years immediately after World War One. At the outset, federal support was officially temporary, established each year for one year, and always prefaced with a legislative preamble re-asserting that relief was primarily a municipal and provincial responsibility. In the end, however, federal grants were substantial, and had to be supplemented by loans to the western provinces, some of which were effectively bankrupt. Federal contributions amounted to almost half of total relief expenditures and over 70 percent of expenditures in the western provinces.

In 1935, it looked as if electoral pressures had finally produced a more formal program. The Conservative government, itself facing imminent electoral defeat, passed an Employment and Social Insurance Act. Desultory intergovernmental consultations on constitutional reform to formalise federal jurisdiction in the area had gone nowhere, and Prime Minister Bennett simply asserted that the federal government already possessed the necessary authority. He was wrong, however, both politically and legally. Death-bed repentance did not save the government, and the Liberals were returned to power. They delayed implementation of the Act, referring it to the courts, and in 1937 the courts struck it down as intruding on provincial jurisdiction. The Liberals started another round of discussions of constitutional reform, but failed to secure sufficient provincial consent before the war.

Thus, despite manifest hardships, the 1930s did not witness a watershed in Canadian social politics, and no innovations on the scale of the New Deal in the United States took place. Decentralisation was not the only, or even the most important factor at work, and some analysts question whether federalism was significant at all (Struthers 1983:209; Noël 1999). Obviously, it is impossible to be sure whether Canada would have had a more robust response had the constitutional constraint not existed. But in the judicious assessment of Les Pal, "federalism weighed on the side of the set of forces that together acted to delay implementation", and Canada would likely "have had UI sooner had constitutional complications not stood in the way" (Pal 1988: 152, 167). Certainly, the 1937 decision of the courts convinced an entire generation of social planners, labour leaders and social reformers, at least in English-speaking Canada, that decentralisation was a roadblock on the way to social justice (Owram 1986, esp. chapter 9).

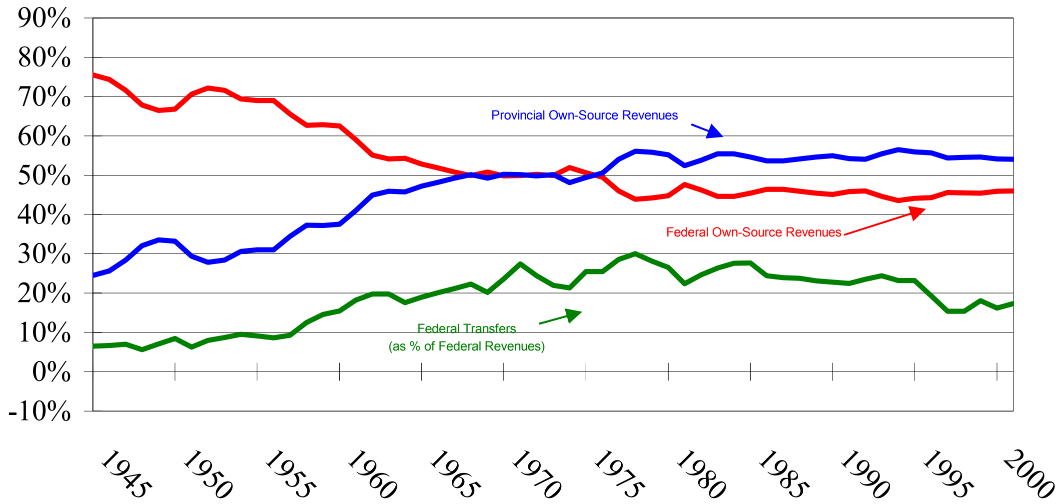
3.2 Semi-centralised welfare and diverging trajectories

In the postwar era, changes in the political economy of Canada strengthened the forces of reform. By the 1940s, a clear majority of Canadians lived in urban centres. As Figure 1 indicates, a third of the non-agricultural labour force was unionised by the 1950s, a proportion that was to rise further in the 1960s; and the labour movement became more institutionally and ideologically unified. In addition, the postwar decades were characterised by strong economic growth and buoyant tax revenues; and Canadian policy elites become active adherents to Keynesian economics, reflecting a faith in the capacity of state action to solve important economic and social problems.

Developments in the party system strengthened reformist orientations. The political left was finding its feet. In 1942, the CCF won several federal by-elections; in 1943, the party became the official opposition in Ontario; and in 1944, it took power in Saskatchewan and basked in the warmth of national polls suggesting the party was competitive with the governing Liberals. The euphoria proved transitory, and the party settled into minority status at the national level after the 1945 election. But potential strength on the left had a significant impact on the Liberals. The long-term Liberal Prime Minister, Mackenzie King, was haunted by the prospect of a British-style polarisation between left and right, squeezing out the centrist liberal party. At moments of left strength, the Liberals therefore refashioned themselves as a party of social reform. This proved critical during the Second World War, when the Liberals introduced several major programs. A similar pattern played out in the mid-1960s. The transformation of the CCF into the NDP in 1962, with its much closer alliance with organised labour, produced a renewed Liberal determination to fight for the support of working-class voters, and a new generation of reformist Liberals came to power within the party. These dynamics were reinforced by the balance in parliament. During the critical years between 1963 and 1968, the Liberals formed a succession of minority governments, dependent on small parties such as the NDP, a pattern that was repeated in 1972-74 (see P. Bryden 1997).

Political change was amplified by institutional change. The 1940s ushered in a period of unparalleled political dominance by the federal government. The war centralised power dramatically, bequeathing federal authorities with a highly professional bureaucracy and – most importantly – dominance of the primary tax fields. When a federal-provincial conference failed to agree on a new system of revenue sharing in early 1941, the federal government simply pre-empted the provinces, announcing dramatic increases in all tax fields, including fields previously occupied exclusively by the provinces. Ottawa offered sustaining payments to provinces that eliminated their personal and corporate incomes taxes. Given the pressures of war, this was an offer provinces could not refuse. As a result, the federal government entered the postwar era a powerful position. Over the coming decades, Ottawa was anxious to retain enough of the tax fields to expand conditional grant programs and equalisation payments to poorer provinces. Provincial governments, however, fought to recapture tax room to finance their education, health and social services on their own terms. In effect, it was a struggle for control over the Canadian welfare state: "the federal government wanted to use income taxes to establish national standards of public services, whereas the provinces wanted them in order to tailor public expenditures to suit their own priorities" (Perry 1997). Federal dominance was to erode over time, as Figure 2 indicates. But in the early days Ottawa controlled the purse strings.

Figure 2: *Federal and provincial/local governments share of total public revenues according to the National Accounts*



Source: Lazar/St. Hilaire/Tremblay 2004:, pp. 135-187, p. 171.

In addition, linguistic and regional tensions, while never absent, were at an historic low tide in the 1940s and 1950s. The federal government was able to build a pan-Canadian agenda centred on the development of social programs, which did not pit region against region (Simeon/Robinson 1990). The provinces accepted constitutional amendments to strengthen federal jurisdiction, and many English-speaking provinces lobbied for broader federal engagement. In the early postwar years, only Quebec complained about federal pre-emption of social policy terrain, but it was not in a strong position to resist. Dominated by a conservative, clerical tradition, the province was not committed to building its own social programs. As in the case of old age pensions in 1936, the Quebec government was vulnerable to federal initiatives that proved popular with the Quebec electorate (Vaillancourt 1988).

The federal government capitalised on its position, introducing several social programs during the war years and announcing a sweeping package of proposals for social policy reform as part of postwar reconstruction in a series of ‘Green Books’ before the 1945 election. The package collapsed at a federal-provincial conference later that year, when the two largest provinces rejected the associated proposals on intergovernmental finances. Nevertheless, the Green Book proposals represented a coherent agenda that the federal government pursued on an incremental basis over the next two decades.

The high-tide of federal dominance turned-out to be short-lived. By the 1960s, provincial resistance was beginning to grow. Most important was the resurgence of Quebec nationalism and the *révolution tranquille,* a modernisation drive that transformed the role of government in the province. Beginning with the election of a reinvigorated *Parti liberal* in

1960, Quebec was increasingly determined to build a *provincial* welfare state, one reflecting a *québécois* sensibility. The province declared an end to new jurisdictional concessions, and launched a protracted campaign to recapture ground lost in earlier decades. In 1965, Quebec won the right to 'opt out' of a number of national shared-cost programs, receiving additional tax room from the federal government so that it could operate the programs on its own. The victory was partly symbolic, since the province agreed to meet existing conditions associated with the programs. Nevertheless, symbolic asymmetry signalled that the era of easy centralisation was over. In time, other provinces also came to resent the detailed controls and financial tensions implicit in traditional shared-cost programs, and by the 1970s provinces generally began to push back. As we shall see, new federal social programs faithfully reflected this evolving intergovernmental balance. Programs enacted in the 1940s and 1950s tended to give Ottawa the dominant role, whereas those introduced in the 1960s gave more scope to provincial governments.

The semi-centralised welfare state that emerged in this era overcame the constraints that slowed progress in the interwar years. However, federal institutions continued to leave their imprint on new social programs in more subtle ways. Much depended on the model of intergovernmental relations and the related decision rules that governed new programs, and it is useful examine three clusters of programs: classical federalism; joint-decision federalism; and shared-cost federalism.

3.2.1 Classical federalism and exclusively federal programs

The federal government mounted several income security programs that deliver payments directly to citizens. There is no formal provincial role in these programs, and provincial governments are simply one of many lobbyists that seek to shape federal decisions. As a result, these programs are defined by the shifting currents of national politics, much as they would be in a unitary state. Although federal officials still have to cope with the territorial features of Canadian politics, they are unconstrained by provincial vetoes.

This exclusively federal process reduces the range of political perspectives that have to be accommodated in decision-making. In comparison with the need for consensus among governments of different political ideologies which characterises an intergovernmental process, decisions about exclusively federal programs reflect the ideological orientation of the governing party. Since the Liberals formed the government continuously from 1935 until the end of the 1970s, with the exception of a short interregnum from 1957-1963, the programs were shaped by the 'liberal' orientation of a centrist party. The social-democratic perspective of the CCF/NDP was articulated by the party's representatives in Parliament, but theirs was only one voice in the political cacophony of the day. The NDP did have more influence when the Liberals were in a minority in Parliament in 1963-68 and 1972-74, but even then, the party's influence was indirect, affecting choices made within the Liberal cabinet. Once legislation was introduced, the NDP was in a tight spot. It could attempt to amend legislation of liberal inspiration, but it was seldom in a position to insist, since defeating the government risked losing the bill. The choice was between liberal legislation and no legislation was no choice for the CCF/NDP.

These dynamics proved critical in the field of income security, which – in comparison with health care – assumed a decidedly liberal cast. The first step came in 1940 when, following the defeat of the nationalist Duplessis government in Quebec, all provinces agreed to a constitutional amendment giving the federal government full authority over unemployment insurance. The Unemployment Insurance (UI) program, which followed quickly, was the first major social insurance program in the country, the first to establish benefits as a right, complete with appeals machinery for claimants who felt unfairly treated. By comparative standards, however, the Liberals' plan was modest in design. While it covered most of the urban, industrial workforce, it excluded workers in agriculture, fishing and private domestic service, as well as public employees and high-income earners. Moreover, the benefit replacement rate was only 50 percent of wages, with a modest supplement of 15 percent for married claimants.

Family Allowances came next. In 1944, the federal government introduced a universal, flat-rate benefit funded from general tax revenues. Unlike the Australian Child Endowment Scheme established a few years earlier, benefits were payable for the first child and increased with the child's age; but the benefits were modest, providing an average monthly payment of $14.18 per family (Guest 1997: 132; also Kitchen 1987; Jean 1992). There was little federal-provincial conflict over the program. Quebec did object, and passed a short bill authorising a provincial plan if the federal government would withdraw. However, the province's opposition 'was launched too late and soon decreased as the political danger of fighting such a popular measure became clear' (Jean 1992: 403). This is not to say that the debate was free of linguistic tension. Higher birthrates in Quebec than elsewhere led to criticisms, including by the Conservative opposition in Parliament, that Family Allowances represented a bribe to the Quebec electorate. To diffuse the possibility of the debate dividing along ethnic lines, the program provided smaller payments for fifth and subsequent children, but the provision was dropped without much debate in 1949.

Pensions represented the final step. In 195l, another constitutional amendment gave the federal government authority to provide old-age pensions directly to citizens, as opposed to the 1927 model of supporting provincial programs. At the time, the Quebec government was not interested in launching its own program, but it did preserve its options for the future, insisting that the constitutional amendment retain provincial paramountcy by stipulating that no federal pension plan should affect the operation of any future provincial legislation.[7] The Old Age Security (OAS) was a universal, flat-rate pension of $40 per month for elderly citizens funded through general tax revenues. In 1966, the benefit was extended by the Guaranteed Income Supplement (GIS), an income-tested supplement that is added to the OAS payment for elderly citizens with middle and low incomes. The GIS payment is reduced by 50 cents for every dollar in other income, in effect, providing a guaranteed income for the elderly. In 1975, a similar Spouses Allowance was added for younger spouses of pensioners.

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7 Vaillancourt criticises the Quebec position as incoherent and a sign of provincial immobilism (1988: 430, 486).

These exclusively federal programs, unencumbered as they are by intergovernmental constraints, remained responsive to the centrist currents of federal politics. During the postwar decades, these currents were largely expansionist, and parties entered election campaigns armed with promises to raise benefits. In 1957, for example, Conservative attacks on the paltry nature of an OAS increase helped topple the long-entrenched Liberal Government. After 1966, these electoral dynamics increasingly focused on the GIS, which cost less to increase. The supplement was initially introduced as a small, temporary measure that would fade away with the maturation of the contributory pensions introduced at the same time. However, the GIS was repeatedly enriched in real terms, usually just before or after an election, steadily transforming its role. By the mid-1980s, the maximum GIS was worth more than the OAS and the supplement provided full or partial support to almost half of the elderly population, significantly delaying the day at which it would fade as an important component of the retirement income system.

Similarly, the federal government was free to expand UI and Family Allowances on its own terms. In 1971, legislation broadened the UI program to include all employees, increased the replacement ratio to 66 percent of wages, introduced extended benefits in regions with high levels of unemployment, and covered unemployment resulting from sickness and temporary disability. All of this came with remarkably little consultation with provincial governments; even the regional features of the plan represented “the federal government’s own policy priorities in regional development”, and “were not pressed upon Ottawa by the provinces” (Pal 1988: 161). Notably, the 1971 legislation also introduced maternity benefits. As Ann Porter points out, tying maternity benefits to UI had the effect of excluding women who were not in the labour force, who were self-employed, or who were unable to find the stable kinds of jobs needed to qualify for an insurance-based benefit (Porter 2003: 91). Yet at no point was a separate maternity program seriously considered. A separate program would have fallen into provincial jurisdiction. UI was a federal instrument, and UI it was.

With Family Allowances, Liberal governments zigzagged with abandon. In 1970, they proposed to transform the universal benefit into an income-tested Family Income Supplement, analogous to the GIS, in order to target resources on low-income families. However, Liberals MPs encountered resistance to the idea of taking the Family Allowance away from middle-income families during the 1972 election. Reduced to a minority position in Parliament and dependent for their survival on the NDP, the Liberals promptly changed direction. They maintained the universal program and tripled the payment over-night, thereby restoring most of its original purchasing power. In 1978, however, the Liberals returned to income-testing in an incremental way, introducing a refundable Child Tax Credit, financed in part through a reduction in the universal Family Allowance. Over the next decade, a tortuous set of changes integrated the two programs into a single, income-tested Child Benefit. All of these shifts had major implications for provincial social assistance programs, but the provinces had no role in the decisions.

3.2.2 Joint- decision federalism

In comparison, the introduction of contributory pensions in 1965 and their subsequent evolution were governed by a complex process of joint decision, which diversified the ideological perspectives brought to bear on program design and slowed change.

The legal origins of joint decision-making lay in the provincial paramountcy embedded in the 1951 constitutional amendment on pensions. When the issue of a contributory pension plan came to the fore in the mid-1960s, Quebec announced that it would operate its own plan. As a consequence, the Quebec Pension Plan (QPP) operates in that province, and the Canada Pension Plan (CPP) operates throughout the other provinces and the territories. In addition, although the other provinces were content with a federally-delivered plan, they wanted to preserve significant control over it, and the limitations of the 1951 amendment gave them leverage. A new constitutional amendment was required to include survivor and disability benefits in the plan, and the provinces insisted on joint decision-making in return for agreeing to the amendment. As a result, changes in the CPP require the consent of the federal government and two-thirds of the provinces representing two-thirds of the population of the country, a requirement more demanding than the amending formula for most parts of the Canadian Constitution.

Asymmetry and joint decision-making create complex veto points. First, to avoid the administrative and political headaches that would emerge if the two plans diverged sharply, pension planners in Ottawa and Quebec City accept that the Canada and Quebec plans should remain broadly parallel, with neither side making significant changes alone. Second, the formula for provincial consent to changes in the CPP means that Ontario alone, or a variety of possible combinations of other provinces, can block changes approved by the federal Parliament. In effect, then, the CPP rules and the pressure for parallelism between CPP and QPP create a system of multiple vetoes: Ottawa, Ontario, Quebec, or several combinations of other provinces, can all stop change. Under such decision rules, policy change requires a high level of intergovernmental consensus and depends on elaborate intergovernmental negotiations.

The introduction of the plans illustrates the dynamics well. Federal leadership was critical to catapulting contributory pensions to the top of the national agenda in the 1960s. In his analysis of federal-provincial diplomacy in that period, Richard Simeon concludes that if contributory pensions had remained an exclusively provincial jurisdiction, “it is most unlikely that a plan comparable to CPP would have been enacted” (Simeon 1972: 270; cf. K. Bryden 1974; P.E. Bryden 1997). Contributory pensions were not a provincial priority, and many provinces would likely have followed Ontario’s plan to rely on the private sector, with employers above a certain size required to provide occupational pensions. Ontario was governed by the Conservatives, and its ideological orientation was reinforced by the insurance industry, which is largely headquartered in the province. Industry representatives were deeply involved in Ontario’s planning and included in its delegations to federal-provincial conferences. The province recognised that the federal proposal was popular with the public, and accepted that contributory pensions of some sort were inevitable. But it held out for a limited plan that left ample scope for private pensions and minimised redistribution by relating individual contributions and benefits closely.

Initially, federal officials assumed Ontario was the major obstacle, and trimmed their sails accordingly, for example, reducing the proposed benefits from a replacement rate of 30 percent to 20 percent of average wages. But during a 1963 federal-provincial conference, the Quebec government created a sensation by outlining its plan, which included more generous benefit levels and a more redistributive funding formula. Moreover, in contrast to the federal preference for a pay-go model, Quebec called for a partially funded plan, with the accumulated fund purchasing provincial government bonds, effectively loaning the capital to the provincial government on favourable terms. This idea was attractive to other provinces as well. At that point, the federal proposal was dead. A final round of secret negotiations between Ontario and Quebec City produced a compromise plan: Ottawa accepted partial funding; Quebec accepted an earlier phase-in of benefits; the replacement rate was set at 25 percent of average monthly earnings, lower than Ottawa's initial preference but higher than its Ontario-focused version; and the plan had broader benefits and a more redistributive structure than Ottawa had originally anticipated. The Ontario government and the insurance industry were not happy and felt that Ottawa "had used Quebec to turn the tables on them" (Kent 1988: 286). But they too were attracted by the funding model, and accepted the need for parallelism with Quebec.

In subsequent decades, multiple vetoes slowed the pace of expansion and helped deflect electoral pressures away from the C/QPP towards the exclusively federal GIS. However, expansion of an income-tested supplement, even one reaching close to half of retired Canadians, is a much more limited instrument than a broad-based contributory pension. The 1970s did witness one major effort to expand the C/QPP. In 1975 the Canadian Labour Congress and social groups launched a 'Great Pension Debate', urging a doubling of CPP benefits. The federal Liberals were initially sympathetic to some expansion, and an advisory commission in Quebec was also supportive. Wider provincial support, however, was lacking. As the CPP Advisory Committee noted in 1975, "the CPP has become the backbone of provincial debt financing", contributing more than 30 percent of total provincial borrowing and even more in periods of stress in capital markets (Canada Pension Plan Advisory Committee 1975: 7-8 and appendix 4). In this situation, provinces had a vested interest in opposing any liberalisation of benefits that would erode the size of the fund. The campaign's momentum was slowed, and the historic moment passed. By the time an intergovernmental consensus emerged ten years later, economic recession and an increasingly conservative political climate had shifted the centrist currents of Canadian politics: all governments opposed expansion of the C/QPP, and focused instead on encouraging occupational pensions and private retirement savings in tax-sheltered accounts. The 1985 changes in the contributory plans were limited to division of credits on divorce and remarriage, and a schedule of increases in the contribution rates (Banting 1985; Desjardins 1994).[8]

8 Bruno Théret argues correctly that ideological shifts explain the 1985 changes, but gives too little credit to joint-decision in slowing the momentum of the advocates of expansion in the 1970s (see 2003, chapter 8).

These institutional dynamics help explain the relatively 'liberal' nature of Canadian pensions. In combination, the OAS and the maximum C/QPP benefit replace approximately 40 percent of earnings for the average wage earner, a modest amount by European and even US standards. The average Canadian retiree receives a larger portion of his or her income from private occupational pensions, personal retirement accounts and other forms of savings than in most other western countries (Beland/Myles). Consistent with this liberal ethos, the strength of the Canadian system is at the bottom of the income distribution. The size and reach of the Guaranteed Income Supplement ensures that the replacement rate in much higher for low-income workers. As a result, despite lower expenditures, the combined programs have a stronger redistributive structure and a more dramatic impact on poverty among the elderly than does Social Security in the United States, the benefits of which are more strictly proportional to income (Brown/Ip 2000).

3.2.3 Shared-cost federalism

The third model, shared-cost federalism, structured federal-provincial relations the fields of health care and social assistance. In contrast to exclusively federal programs, the shared-cost model broadens the range of governments and ideologies influencing policies; but in contrast to the joint-decision rules, this model does not give a veto to any particular province. These differences in decision rules altered the participants in the process and redistributed power among them, with significant implications for the ideological balances struck in the emerging policies.

Health care: Provincial control over health care was firmly entrenched in the constitution, and there were no constitutional amendments expanding federal jurisdiction. There is thus no Canadian equivalent of Medicare in the United States or medical and pharmaceutical benefits in Australia, which are delivered directly to citizens by the central government. In Canada, the federal role flows through shared-cost mechanisms.

In the early days, federalism slowed progress towards public health insurance. As we have seen, the courts invalidated the federal government's social insurance legislation in 1937 and the provinces rejected the Green Book proposals in 1945, both of which included health insurance. Initially, federal action was limited to grants to the provinces for hospital construction and public health initiatives introduced in 1948. This hiatus was to have lasting consequences. During the 1930s and 1940s, Canadian thinking on health care was strongly influenced by British ideas. As Carolyn Tuohy has observed, 'if a window of opportunity for policy change had opened in Canada in the 1940s, the resulting scheme would undoubtedly have borne a closer resemblance to the NHS (though undoubtedly without the Labour-inspired nationalisation of the hospitals) than did the Canadian plan that developed twenty years later. But no such window opened in wartime or the immediate postwar period, given the state of federal-provincial relations' (Tuohy 1999: 44).

Nevertheless, federalism did create opportunities for innovation at the provincial level, which the political left used to establish a universal system as the leading option for the country as a whole. In 1947, the CCF government of Saskatchewan implemented universal hospital insurance, the first jurisdiction in North America to do so. Two other western provinces – British Columbia and Alberta – followed in quick succession. At that point, the spread across the country stalled, and the provinces increasingly looked to the federal government to build a national approach. The Prime Minister, Louis St. Laurent, vacillated, insisting that his government would support provincial health insurance programs only when a majority of the provinces representing a majority of the population was ready to join a national scheme. By the mid-1950s, however, this condition was met when Ontario and Newfoundland joined the list of provinces demanding federal action. In 1957, the federal government introduced a universal hospital insurance program, which shared the costs of provincial programs, and within four years, all of the provinces had joined. Quebec was the last in, joining after the election of the *Parti liberal* in 1960 (Maioni 1998; Taylor 1987).

A similar cycle extended health insurance to physician services. In 1962, the NDP government of Saskatchewan again took the lead, introducing a Medicare plan, despite a bitter three-week doctors' strike, the first organised withdrawal of services by medical professionals in North America. Key elements in the settlement that ended the strike – universal and comprehensive coverage, the right of patients to choose their own doctors, and the preservation of a fee-for-service payment for physicians – became the starting point for national debate. The Saskatchewan experience demonstrated that the social-democratic approach was feasible in administrative and political terms. Doctors no longer had to provide uncompensated care, and their incomes actually rose in the early years of the program, easing the danger of militant opposition elsewhere. This early success gave ammunition to reformist forces in national politics, and their opportunity came in 1963 with the return to power of the federal Liberal Party. The Liberals were committed to a national medicare program of some sort, a move "aimed at co-opting the CCF-NDP's health reform agenda" (Maioni 1998: 128). Moreover, the new government was in a minority in Parliament and depended on the support of minor parties, including the NDP.

Conservative political forces mounted a fierce resistance to the universal model. The Canadian Medical Association and the insurance industry were opposed, and ideological conflict coursed through intergovernmental channels. Conservative governments in Ontario, Alberta and British Columbia were committed to private coverage for the majority of the population, with public programs limited to the 'hard to insure', such as the elderly and the poor. Without federal action, this position would undoubtedly have prevailed in large parts of the country, and health insurance in Canada would have more closely resembled the system emerging at the same time in the United States. However, after a royal commission recommended a universal program, the federal government came down on that side of the debate. This policy was a difficult ideological pill for conservative provincial governments to swallow, but they were caught in a familiar vice. The federal program was popular with their electorates; and if they refused to join, their residents would still have to pay federal taxes to support the program in other provinces. The long-serving health minister in Alberta resigned in protest. The premier of Ontario denounced Medicare as "one of the greatest frauds that has ever been perpetrated on the people of this country" (quoted in Taylor 1987: 375). Unlike in the case of contributory pensions, however, Ontario lacked the leverage of a veto. By 1971, all provinces had medicare programs in place.

The degree of conditionality in these programs reflected the intergovernmental politics of the day. The 1957 legislation incorporated relatively demanding conditions and accounting requirements. To qualify for support, provincial plans had to provide universal coverage, include specific diagnostic services, limit co-insurance payments or deterrent charges, and establish detailed controls over hospitals. In addition, federal officials had to certify that individual projects met the conditions for cost-sharing, and provincial governments had to submit all of their hospital expenditures to federal audit. In the wistful words of a later federal health minister, the 1957 legislation endowed "the federal government with impressive administrative controls judging by today's standards" (Bégin 1987: 54f.).[9] The Medical Care Act of 1966 had fewer detailed controls, and simply specified broad principles.[10] To qualify for support, provincial plans had to provide universal coverage to all provincial residents, cover all medically necessary services, ensure public administration of medical plans, and guarantee the portability of benefits outside the province. Within those parameters, however, provinces retained full responsibility for health care. They regulate hospitals, clinics, nursing homes and other health institutions; they regulate the medical professions and shape medical education; they negotiate fee schedules with doctors and other professions, set global budgets for hospitals, and have the final responsibility for the costs of health care. Although federal legislation requires provinces to cover all 'medically necessary' procedures, the definition of medical necessity is left to the provinces and coverage does vary at the margins.

Federalism thus played a distinctive role in the politics of health insurance. Although jurisdictional issues delayed action in the early years, federalism also created room for a reformist province to implement health insurance on social-democratic principles. In the end, federal action was required to transform this regional initiative into a national program. But federal-provincial interaction launched health insurance on a social-democratic trajectory that contrasts sharply with the contributory pensions being developed at the same time by the same governments. While the pension reforms carefully left substantial room for occupational pensions and private savings, health insurance displaced the private insurance industry completely from core hospital and medical services. Decision rules were not the only difference between the sectors. But they were critical.

Social Assistance and Social Services: The same dynamics did not shape social assistance. The federal government assumed social assistance would shrink to a residual role after the new income security system matured, and it never sought to establish a powerful national framework for provincial welfare programs. The result was to deprive the CCF/NDP provinces of the sort of leverage they were able to exert in health care.

The 1945 Green Book proposals envisioned full federal responsibility for all unemployed people, including those not covered by unemployment insurance, and a number of provincial governments pressed Ottawa to honour its proposals. In the end, the federal government agreed to a shared-cost program, partly as a way, in the words of a cabinet

9 On the strength of federal controls, see also Taylor 1987: 236.
10 On the origins of the approach, see Kent 1988: 366-367.

document, to "bury the Green Book proposals once and for all" (quoted in Struthers 1987: 24). In introducing the 1956 Unemployment Assistance Act (UAA), the minister of National Health and Welfare proclaimed that it would "write finis to the deadlock which has existed in this country for a decade or more… (as) each jurisdiction has argued that responsibility belonged to another level of government" (quoted in Banting 1987: 69). In 1965, the Canada Assistance Plan (CAP) consolidated existing shared-cost programs in the field and extended support to Mothers' Allowances for the first time.

Despite the funding, the federal policy role in social assistance was tepid. The contrast with the 1927 pensions program, the first major shared-cost initiative, was dramatic. Under the 1927 legislation, the provinces were essentially delivery agents for a federal program. Federal action specified application procedures, eligibility criteria, the maximum benefit, and the formula for calculating benefits. The federal government had also decided on increases in the maximum pensions unilaterally. The 1956 UAA made no attempt to replicate that model. Eligibility requirements and benefit levels were left to the provinces. Under the CAP, provinces were required to support all persons 'in need', to establish a formal appeal machinery, and to abolish provincial residency requirements for social assistance. Otherwise, they had complete control. Despite some pressure from social policy groups, no serious thought was given to national benefit standards, and even a proposal to require provinces to report annually on their policies was squashed within the federal government by the Department of Finance (Haddow 1993; Dyck 1976).

Federal financial support did trigger "a major restructuring of social assistance across Canada on a scale unseen since the Depression" (Struthers 1994: 141-144). Spending on social assistance and services rose strongly as a percentage of total provincial expenditures from the mid-1950s until the mid-1970s. The increase was not simply a reflection of rising caseloads, since benefit levels also rose in real terms, especially in the ten years after the introduction of CAP. Although it is impossible to know how much provincial spending would have risen in the absence of federal transfers, the increase was larger in programs eligible for cost-sharing than in non-shareable services; and federal and provincial officials certainly believed the federal transfers were critical, especially in poorer provinces. Within this overall pattern, however, federal programs left room for provincial programs to evolve along distinctive trajectories. There was some convergence in benefit levels across provinces in the decade after the introduction of CAP, but the effects were transitory. Benefits have gone through cycles of convergence and divergence over the years.[11]

The federal government did attempt greater federal leadership in the mid-1970s. In 1971, a Quebec commission published a sweeping blueprint for reform of both federal and provincial programs in order to establish a guaranteed income for low-income people. The report put the federal authorities on the defensive, and they launched a federal-provincial Social Security Review, which sought to integrate social assistance, family allowances, minimum wages and the tax system. Once again, the federal-provincial process opened

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[11] This paragraph is based on Boychuk (1998), and Health and Welfare Canada, Program Audit and Review Directorate (1991).

more channels to reformist opinion. Quebec and three NDP provincial governments were committed to a guaranteed annual income. But federalism also maximised the ideological distance among participants, since some quite conservative provincial governments were also at the bargaining table. Ideological divisions complicated the program design stage of the review, fuelling a protracted argument between a one-tier and a two-tier program. As in the case of the 'Great Pensions Debate', which began about the same time, decisions were delayed while the economy weakened and political support for welfare expansion shrank. In the end, even mild proposals advanced by the federal minister were flatly rejected by Ontario and deferred by several other provinces (Haddow 1993).

In the aftermath of the collapse of comprehensive reform, Ottawa and several provinces did take incremental action independently. As we have seen, in 1978 the federal government introduced a refundable Child Tax Credit, paid to low-income families through the tax system; Quebec introduced a Work Income Supplement Program; and Saskatchewan and Manitoba launched income supplements of their own. In the case of the Social Security Review, then, divided jurisdiction increased the access of reformist opinion to national councils, and facilitated incremental progress afterwards. But a broad national program remained illusive.

3.3 Summary

The expansion of the federal role in social policy during the middle decades of the 20th century largely overcame the constraints inherent in decentralisation during the interwar years. Ottawa quickly implemented major income security programs of its own in the 1940s and early 1950s, and led the nation-wide development of provincial programs in the 1950s and 1960s. However, new and more subtle relationships were emerging in the postwar era. Different models of federalism altered the mix of officials at the table and redistributed power among those that got there by requiring different levels of consensus for action. The result was a differing interaction between institutions and policy in each case. Exclusively federal programs were shaped by centrist politics and launched on largely liberal premises; joint decision-making provided institutional buffering against political pressures for expansion in contributory pensions in the years after their introduction; and the shared-cost model gave opportunities to social-democratic forces in health care, but not in social assistance where the federal government did not try to define a national approach.

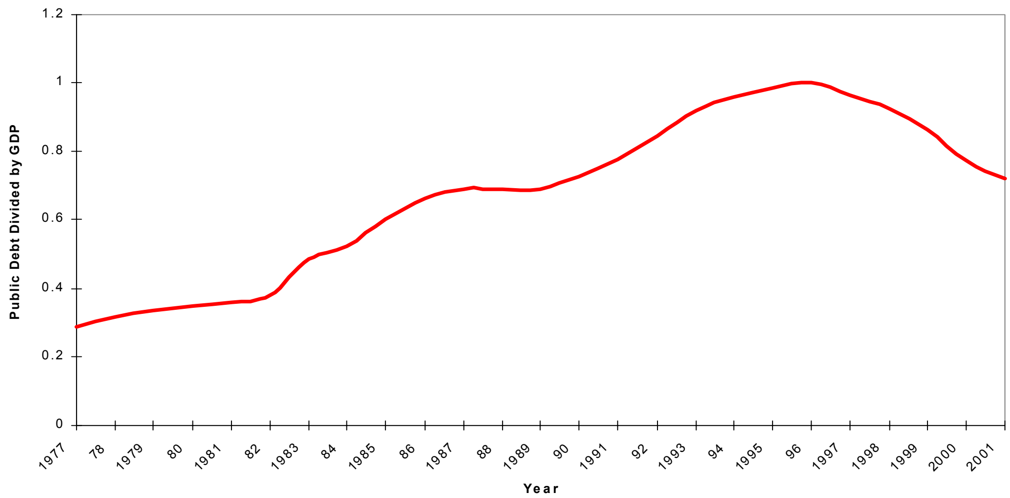
4 Federalism and the politics of restructuring

Major turning points in history rarely announce themselves as such. In retrospect, however, it is clear that the mid-1970s represented the high-water mark of the postwar welfare state. A new politics came to dominate during the last quarter of the twentieth century, one focused on retrenchment and restructuring. The politics of restructuring in Canada were driven by the same economic changes reshaping the welfare state in OECD countries generally: the slowing of economic growth and higher levels of unemployment, the acceleration of technological innovation, and the globalisation of international trade. In the Canadian case, globalisation essentially meant deeper integration with the American economy, which absorbed well over 80 per cent of Canadian exports by the 1990s. Although the 1988 Canada-US Free Trade Agreement and the 1994 North American Free Trade Agreement did not create a political union comparable to the Europe Union, intense controversy centred on whether deeper economic integration would require Canada to harmonise its social programs with US standards. There is little evidence that the Canadian and US welfare states have, in fact, converged (Banting 1997; Boychuk/Banting 2003). However, conservative political voices in Canada constantly emphasise the importance of economic competitiveness in the American marketplace.

In domestic politics, the centre of gravity moved from the centre/centre-left to centre/centre-right. The Conservatives won two successive majority governments at the federal level for the first time since the First World War, governing from 1984 until 1993; and the Liberals were pulled to the right when they held power, especially in the mid-1990s. As in many countries, historical champions of the welfare state such as organised labour were on the defensive and old alliances splintered. Tensions grew between public and private sector unions and between organised labour and NDP provincial governments, which were forced into retrenchment mode. Other champions stepped forward, including the women's movement, welfare rights groups and the providers of social services. Nevertheless, supporters of the welfare state faced a tough climate. The fiscal problems of the Canadian state were particularly acute by international standards. As Figure 3 indicates, the ratio of public debt to GDP rose steadily from the late 1970s until the mid-1990s, by which time Canada rivalled Italy as the most indebted of G7 nations. At the worst point, approximately 35 per cent of all federal revenues was pre-empted by interest payments on federal debt, and several provinces faced problems placing their bonds in financial markets. In this context, public opinion stiffened. Universal programs such as health care and pensions retained strong support, but opinion polls recorded more resistance to unemployment and welfare benefits and greater support for tax cuts, a pattern that peaked in the mid-1990s.

The new politics of social policy was compounded by an intensification of territorial politics, which increasingly challenged the social role of the federal government. In 1976 the *Parti québécois* won power in the province of Quebec, confirming its status as a major political force. In 1980 and 1995, the country was to live through emotionally wrenching referenda on the separation of Quebec, with the separatist option losing in 1995 by less than one percent of the vote. Regional economic conflicts also deepened, with the energy crisis of the 1970s and free trade in the 1980s pitting region against region. These conflicts plunged the country into protracted federal-provincial negotiations over constitutional reform, which consumed enormous political energy for thirty years (Russell 1993). Throughout this constitutional odyssey, Quebec, supported in varying degrees by other provinces, pressed for restrictions on the federal spending power. In the end, the country failed to coalesce around a new constitutional model, and the spending power was not formally limited. But the social role of the federal government was constantly on the defensive.

Figure 3: *Consolidated public debt as a percentage of GDP, all levels of government (1977-2001)*



Note: Proportion determined by dividing debt data by GDP data and rounding to the nearest hundredth.
Source: GDP Data: Statistics Canada. Canadian Economic Observer Cat. No. 11-210; Consolidated Debt Data: Statistics Canada/CANSIM II. Table No. 385-0017.

Eventually, territorial conflict and the failure of constitutional reform fragmented the party system at the federal level. In the 1993 election, the Conservative party, dominant for almost a decade, was decimated, retaining only two seats in Parliament. New regional parties suddenly emerged. The separatist *Bloc québécois*, a sister party to the provincial *Parti québéois*, became the official opposition in Parliament; and the Reform party, a populist neo-conservative party, sprang up in the west to become the third largest party. The NDP barely survived as an officially recognised party. The Liberals, the only party with support across the country, returned to government, but they faced a massive deficit and two opposition parties – the Bloc and Reform – that were strongly committed to decentralising the federation.

The new politics of social policy and the politics of territory thus reinforced each other. The result was an era of social policy restructuring and retrenchment. The impact, however, varied enormously from one program to another. Some programs were better insulated than others from the chill winds of the day, and federalism was part of the buffering process, constraining retrenchment in the same way it constrained expansion in earlier days. Once again, however, much depended on the model of intergovernmental decision-making in play.

4.1 Classical federalism and exclusively federal programs

Federal-decision-makers were unconstrained by federalism in restructuring programs in their own jurisdiction. But they were also fully exposed to their own electorate, without the protection offered elsewhere by jurisdictional confusion. As a result, the outcomes faithfully reflected the power of different client groups, with a stark difference in the fate of pensioners and the unemployed. In the case of OAS-GIS, governments tried a variety of cutbacks, but regularly retreated in the face of angry elderly voters. In 1985, the Conservatives proposed partial deindexation of OAS, but backed down quickly. A decade later, the Liberal government proposed to replace the OAS and GIS with an integrated income-tested Seniors' Benefit, but abandoned the idea in the face of attacks on the left from women's groups and the NDP and on the right from investment brokers worried about eroding the incentive to save for retirement. The only change that actually survived was a more stealthy measure to 'claw back' OAS from high-income seniors through the tax system. However, the measure affects barely 5 per cent of seniors (Battle 2001; Béland/Myles).

In comparison, UI was under intense pressure. The program was central to new policy perspectives that questioned 'passive' income transfers and celebrated 'active' employment programming; and the unemployed enjoyed much less electoral protection than the elderly (McBride 1992). The result was large cuts. The process proceeded slice by slice, beginning in the late 1970s and culminating in the mid-1990s. The replacement rate was reduced from the peak of 66 percent established in 1971 to 60 percent in 1978, 57 percent in 1993, 55 percent for some workers in 1994, and 50 percent for repeat beneficiaries in 1996 (although offset for some recipients by an increased family supplement). By 1996, the replacement rate resembled that in 1940. In addition, increasingly restrictive eligibility requirements contributed to a sharp erosion in the proportion of beneficiaries actually receiving benefit, as Figure 4 indicates.[12] Despite a dramatic decline in payments, cuts in contributions rates were negligible, producing an immense surplus in the UI account, a surplus that was available to the federal treasury in the way that the CPP fund is not.

The primary constraint on federal discretion on this file was the politics of regionalism. In many countries, proposals to reduce unemployment benefits pit politicians against organised labour; in Canada, the most effective opponents of cutbacks are politicians from poor regions (Pal 1988: 165-168; Porter 2003: 166-172, 195-210, 215-224). A ritualised political dance was repeated many times: governments proposed reductions; backbench MPs and provincial governments from Atlantic Canada and Quebec mounted fierce resistance; the government compromised in ways that softened the impact in poor areas. This dance, performed by both Liberals and Conservative governments in the late1970s and 1980s, resulted in growing regional variations in both qualification requirements and benefit duration. At the height of the fiscal crisis in the 1990s, the Liberals returned to the file, introducing more dramatic cuts. But after Liberal losses in Atlantic Canada at the next election, the impact in poorer regions was softened once more. The unemployed in more affluent provinces such as Ontario and British Columbia received no such protection.

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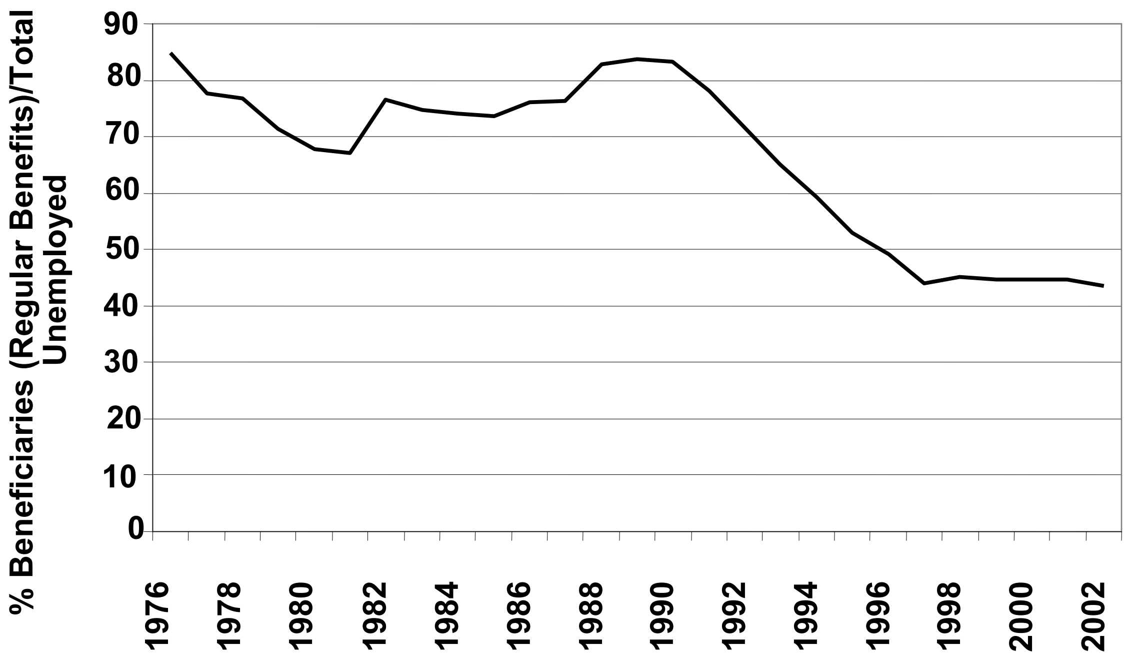
12 The decline in the proportion of unemployed receiving benefits also reflected changes in forms of employment, which decrease eligibility for the program (see Human Resources Development Canada 1998).

Figure 4: *Ratio of UI/EI benefeciaries to total unemployed, Canada (1976-2002)*



Source: Boychuk 2004.

4.2 Joint-decision federalism

In contrast, the consensus-driven, incremental logic inherent in joint decision-making helped protect the C/QPP. During the 1990s, actuarial reports raised questions about the long-term financial status of the contributory pensions, triggering extensive rhetoric about unsustainability. Yet the final adjustments largely served to stabilise the program. Joint decision-making was not the only factor at work. The electoral sensitivity of pensions, evident in the OAS case, was undoubtedly important here as well. Yet contributory pensions create rich opportunities for subtle adjustments that are largely invisible to the electorate in the short term but have major effects in the long term. The fact that these opportunities were exploited primarily to reinforce rather than weaken the program is due in part to the need for intergovernmental consensus.

An intergovernmental review was launched in 1996, with the release of a joint discussion paper on reform options (Canada 1996). From the outset, however, negotiations focused on a narrow range of options, and radical changes were never considered seriously. The province of Quebec announced that it would not consider significant reductions in benefits, a position supported by NDP governments in Saskatchewan and British Columbia. Advocates of privatisation also found little resonance for their ideas. Such proposals faced a large double-payment problem inherent in moving from a largely pay-go system, an issue that confronts such proposals in all countries (Myles/Pierson 2001). In Canada, such proposals confront distinctive issues. Privatisation would weaken the role that the C/QPP funds play in provincial finances, and undermine the Caisse du dépôt et de placement, the Quebec government agency which invests the QPP Fund. As we shall see, the Caisse has come to play a symbolic role in nationalist politics in the province. In the end, the federal and provincial governments agreed to accelerate increases in contribution rates from 5.5 percent to 9.9 percent of earnings over a ten-year period. There was a modest trimming of some benefits, and the two NDP governments refused to sign the final agreement. But governments did not even try for more dramatic retrenchment, such as an increase in the retirement age, and the final changes largely stabilised the role of contributory pensions in the retirement income system (Béland/Myles).

4.3 Shared-cost federalism

The most intense federal-provincial politics in this era centred on shared-cost programs, which provided ample opportunity for off-loading, blame avoidance and mutual recrimination. The stage for these conflicts was actually set as far back as 1977, when bloc funding was introduced in response to frustrations with the traditional form of cost-sharing. The federal Department of Finance became concerned that the commitment to pay half of the cost of expensive provincial programs reduced its control over the federal budget. Provincial governments were irritated by shared-cost programs, which they complained distorted provincial priorities and locked them into endless arguments about whether specific projects qualified for federal support. After extensive intergovernmental negotiations, the two levels agreed to shift to a bloc grant for health and postsecondary education. The federal government gained greater control over its finances, and provincial governments gained greater freedom. Although the conditions attached to the federal health programs remained in place, provinces were able to allocate federal funding as they saw fit. Indeed, there was no explicit requirement that the funding actually be devoted to health and postsecondary education.

Over time, however, provinces were to pay a high price for the additional flexibility, as the federal government was no longer committed to paying half of the costs of provincial programs. At the outset, increases in federal support were tied to the rate of growth in the economy as a whole. But as federal deficits grew, Ottawa repeatedly made unilateral cuts: in 1986, indexation of the transfer was limited to the increase in GDP less two percentage points; in 1990, the transfer was frozen in absolute terms for four years; and the 1995 budget introduced a broader bloc fund, the Canada Health and Social Transfer (CHST) and cut the cash payment to provinces dramatically. These changes, conceived in secrecy and imposed without warning, provoked a bitter reaction among provinces, and seriously eroded the legitimacy of the federal role in their eyes. The impact of this process, however, varied from program to program, depending on the extent to which the federal government tried to sustain a national policy framework, as the contrast between health care and social assistance once again illustrates.

Health insurance: In the case of health care, federalism helped to buffer the universal model from fundamental change but facilitated tough expenditure restraint within the model. In other words, federalism facilitated retrenchment but inhibited restructuring.

The federal government, especially when the Liberals were in power, defined itself as the guarantor of the universal model of health care against efforts by conservative provincial governments to introduce user fees or increase the role of the private sector in health care. Poll after poll showed that Canadians strongly supported the existing model, and the federal Liberals could mobilise that opinion in conflicts with the provinces. However, the ability of federal health ministers to play Sir Galahad also reflected the dry realities of intergovernmental finances. Under the bloc-grant system, the federal treasury was not directly affected by changes in provincial health expenditures, and therefore did not bear the costs associated with the defence of universal health care. As a result, federal health ministers were freer to defend the principles of universality and equality of access. Indeed, they did so even as their colleague, the minister of finance, was reducing transfers to the provinces. In effect, health care during the 1980s and 1990s displayed many characteristics of unfunded mandates in the United States.

This dynamic unfolded in stages. Just before the 1984 election, the federal Liberals nailed their colours to the mast with the passage of the Canada Health Act (CHA). During the early 1980s, a growing number of doctors began charging patients a supplementary fee in addition to the payment they received from the provincial medical plan, a practice known as 'extra-billing'. At the same time, a number of provinces began to flirt with the idea of hospital fees for patients. The federal Liberals opposed both practices as inhibiting equal access to health care, and the new CHA prohibited user fees and all charges at the point of service. To facilitate enforcement, the legislation also determined that such charges would lead to dollar-for-dollar deductions in the federal transfer.

The CHA was opposed by all provincial governments. But it was immensely popular with the electorate, and passed unanimously in the House of Commons. Despite an unprecedented appearance by provincial health ministers before the Senate, approval in that chamber was also unanimous. The federal government proceeded with penalties, withholding a total of $247 million from provinces that allowed charges. The financial penalties alone would not have induced provincial compliance, since they only offset provincial savings from the charges. The real sanctions were political. Provincial electorates supported the principles of the CHA, and were upset when their provincial government was declared to be in violation of its terms. One by one, provinces moved to comply. In doing so, they had to face difficult negotiations with the medical profession, which demanded compensation for the banning of extra-billing. Ontario faced a 25-day strike by a majority of doctors, and Saskatchewan doctors held rotating one-day strikes. The doctors made important financial gains in a number of provinces, costs that the provinces alone had to absorb. But within a few years, all provinces were in compliance (Tuohy 1994).

In contrast to its forceful policy role, the federal financial role declined steadily in the 1980s and 1990s. The extent of the erosion depends on how one defines the 'real' federal contribution (Lazar/St. Hilaire/Tremblay 2004). At the time of the introduction of bloc funding in 1977, the federal transfer was split into an annual cash payment and a transfer of tax points (which involved the federal government lowering its taxes and the provinces raising their taxes by the same amount). The result was a bitter dispute over the size of the federal share. Ottawa insists that its contribution includes both the cash payment and the current value of the tax points transferred in 1977. Provinces reply that the tax points are now simply part of the provincial tax base, and the federal contribution is limited to the cash. Table 2 demonstrates the difference: provinces look only at the first column; Ottawa focuses on the final column. Clearly, the difference is dramatic. On either accounting, however, the federal share of health spending declined in the 1980s and 1990s.

Table 2: *Federal transfers for health care as a percentage of provincial health expenditures (1975-2000)*

Year	*Cash*	*Tax*	*Total*
1975	41.3		41.3
1977	25.2	17.1	42.3
1980	25.3	17.7	43.7
1985	23.8	15.6	39.7
1990	17.9	16.0	33.9
1995	16.4	15.8	32.1
2000	12.8	16.5	29.3

Source: Data from Banting/Boadway 2004, Table 4.

The imbalance between the policy and financial roles of the federal government sparked bitter federal-provincial conflicts. The 1990s saw the emergence of private clinics providing specialised medical services such as cataract surgery, and charging a ‘facility fee’, which in some cases was substantial. The federal Liberal government challenged the fees in 1995, the same year in which it cut transfers to the provinces dramatically. CHA penalties were calculated for four provinces, including Alberta where government support for private clinics was strongest. In the end, the provinces largely moved into compliance by banning facility fees (Boase 2001). But the coincidence of federal cuts and its campaign against fees deepened intergovernmental tension, and the issue has re-emerged with the opening of several private clinics offering MRI diagnostic services in Quebec (Laghi 2004).

Federal-provincial dynamics thus helped buffer the basic model of health care. Indeed, its overall stability is striking. The conditions of the CHA, while certainly strained at the edges, remain intact; and health services are still provided primarily by non-profit and community hospitals on one side and doctors working on a fee-for-service basis on the other. There has been some de-insuring of marginal procedures and new reproductive technologies. But there has been nothing like the revolution wrought south of the border by HMOs and for-profit hospital chains, or by experiments with internal markets in the UK.

While federalism helped buffer the model, it also facilitated cost containment within the model. Provincial governments have formidable powers over health expenditures. Because

Ottawa does not pay health providers directly and there is no private insurance for core hospital and medical services, the provinces are the only payer for these services. They therefore have the capacity to cap budgets for hospitals and physician services, and to restructure or close hospitals altogether. During the 1990s, provinces used these powers aggressively, reducing expenditures by an average of 2 percent each year between 1992 and 1997, a deeper retrenchment than found in other western countries which struggled simply to slow the rate of growth (Fierlbeck 2001; for a comparative assessment see Banting/Corbett 2002)).

Protecting the model but facilitating retrenchment is unlikely to be a stable combination over time, for two reasons. First, Canadians have become anxious about their health-care system. Beginning in the late 1990s, newspaper reports increasingly described a system in decline: the closing of hospital wards; the slow acquisition of new technologies; declining staffing levels; controversy about waiting times for non-emergency surgical procedures; and crowded emergency departments. The perceptions of decline were palpable, and conservative commentators and some provincial governments increasingly argued that the system was unsustainable. Polls suggested that Canadians' faith in their health care has fallen more rapidly than in other western nations, leaving the model potentially vulnerable to radical change in the future (Schoen/Blendon/DesRoches/Osborn 2001). Second, while defending the universal model, the federal government has been unable to extend the model to new frontiers in health care. The CHA model covers hospital, physician and diagnostic services, but other important services fall outside its ambit. The costs of prescription drugs, for example, fall under CHA principles only while patients are in hospital; and dental care, home care and long-term care are completely outside the Act. Government support in these areas tends to be limited to the elderly and low-income Canadians. Given the growing importance of prescription drugs and long-term care, their continued exclusion from the CHA represents a slow, silent narrowing of the promise of universal coverage and equal access to health care.

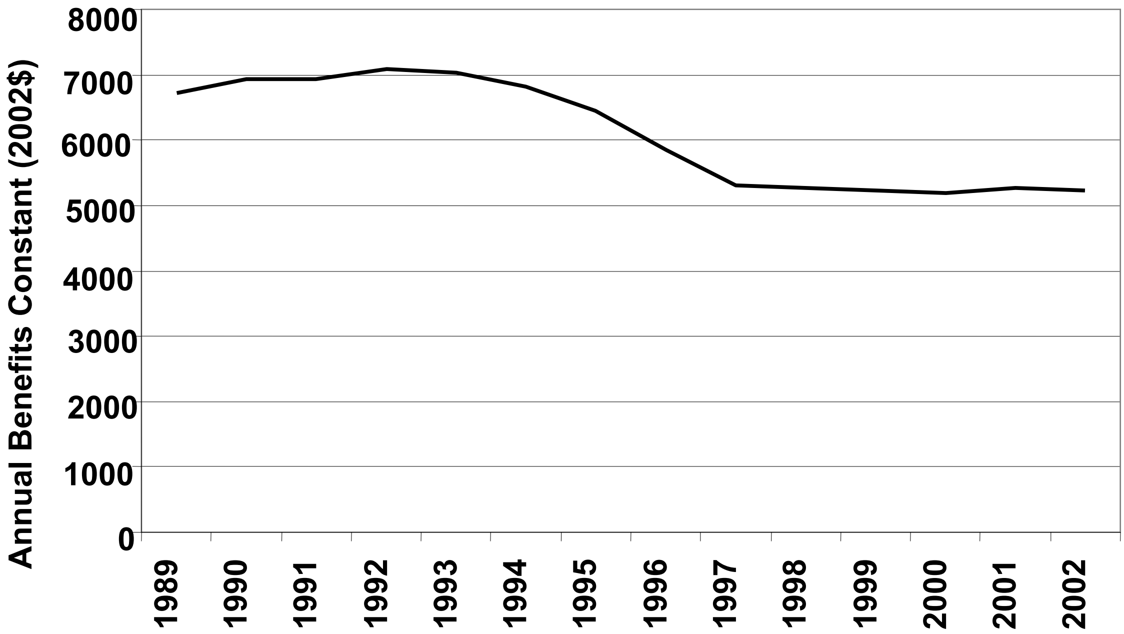
Social assistance: In contrast with health care, social assistance saw a much more straightforward decentralisation. The CAP was not included in bloc funding in 1977, but full cost-sharing fell victim in the early 1990s to the battle against the federal deficit and a struggle between the federal Conservative government and the NDP, which was governing Ontario for the first time. Welfare benefits in the province had increased dramatically under successive governments, and the federal Conservatives were determined not to pay half of the increased costs. In 1990, they unilaterally imposed a 'cap on CAP' for the three richest provinces, limiting growth in the federal contribution to 5 percent a year. With the onset of a serious recession shortly afterwards, the federal share of welfare costs in these provinces fell sharply; within a few years the Ontario government reported that Ottawa was contributing only 28 percent of its welfare costs. Not surprisingly, the province hit back, requiring welfare recipients with disabilities to apply for federal CPP disability benefits (Courchene/Telmer 1998).

The final step came in 1995, when the federal Liberal government abolished the CAP altogether, incorporating social assistance in the new bloc fund, the CHST. This change significantly increased provincial discretion, as the federal funding no longer had to be devoted to social assistance. Ottawa also took the opportunity to eliminate the requirements that provincial programs respond to all persons in need and maintain appeals procedures. Only the prohibition on provincial residency requirements remained. However, even this modest provision was difficult to enforce. British Columbia, complaining about an alleged inflow of welfare recipients from Alberta, promptly imposed a three-month residency requirement on migrants from other provinces. In contrast to health care, this act of defiance was popular with the British Columbia electorate, and the province was under little pressure to retreat. After lengthy negotiations, the province eliminated the requirement in return for an increase in federal funding for another program. But Ottawa had been put on notice that enforcing even the vestigial conditionality associated with social assistance would be difficult.

Many social policy advocates predicted that decentralisation would trigger a race to the bottom. Although CAP had never set national benefit rates, they argued that cost-sharing had dampened the effects of inter-provincial competition, since provincial treasurers would reap only half of any savings generated by cuts. They also argued that the CAP requirement that provincial programs assist all persons 'in need' precluded the more draconian forms of workfare and term limits that had emerged in the U.S. In fact, benefits did decline. In Ontario, for example, benefits were cut by 20 percent 1996. Figure 5a and 5b provide a national view. Average benefits declined in real terms, especially for single employables but to a lesser extent for others as well. As always, it is hard to isolate the impact of decentralisation. The downward trend in benefits began in 1992, before CAP's elimination, and stabilised again in the late 1990s. Moreover, there is little evidence of convergence in the benefits rates of neighbouring provinces, suggesting that inter-provincial migration of recipients was not driving the process. A careful study of these trends concludes that provinces were 'slouching', not racing, towards a bottom (Boychuk 2000). The consequences for eligibility are clearer, however. Beneficiaries were under increasing compulsion to participate in employability programs; and liens on home equity were introduced in Ontario (National Council of Welfare 2003; Bashevkin 2002; Little 1998: 185f.). The most draconian step came in 2002, however, when British Columbia introduced time limits, restricting employable people without children to two years of support in any five-year period. Subsequent revisions reduced the numbers affected significantly.[13] But such provisions would have been fully precluded by CAP.

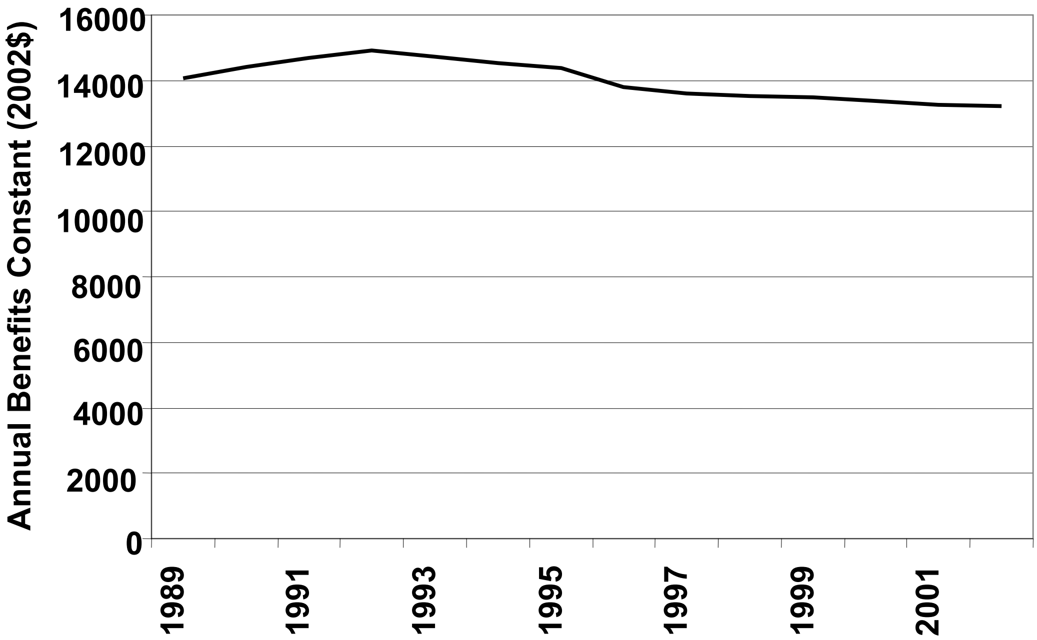
[13] British Columbia, Ministry of Human Resources, 'Time Limit Policy to Protect People In Need', February 6, 2004.

Figure 5a: *Provincial average Social Assitance benefits, single employable (1989-2002)*



Source: Boychuk 2004.

Figure 5b: *Provincial average Social Assistance, total income, single parent, one child (1989-2002)*



Source: Boychuk 2004.

4.4 Summary

As in the past, the new politics of social policy had to flow through the three distinctive institutional filters created by federal institutions. The differences in the filters help explain the uneven impact of retrenchment on different social programs. Exclusively federal programs were fully exposed to the shifting currents of centrist politics, while joint-decision helped protect contributory pensions. Shared-cost federalism helped buffer the basic model of the health care system, but the mild protection afford social assistance collapsed, exposing recipients more fully to provincial politics. Interestingly, the cumulative impact of these changes was to deepen a disjunction at the heart of Canadian social policy. Income security shifted more firmly into the liberal mould, as unemployment insurance and social assistance were weakened and universal benefits such as Family Allowances and to a lesser extent Old Age Security were shifted towards income testing. In contrast, the universal model of health care was protected, at least in hospital, physician and diagnostic services. The two worlds of Canadian welfare moved further apart.

The mid-1990s represented the high-point of federal retrenchment and the low-point in federal-provincial relations. Since then, governments have sought to repair some of the damage in two ways. First, with the return of federal fiscal health in the late 1990s, the federal government began to reinvest in social programs, increasing both its child benefits and its transfers to provinces for health care. Second, Ottawa and all of the provinces except Quebec adopted a Social Union Framework Agreement (SUFA) to guide intergovernmental decision-making in social policy. SUFA commits the federal government to giving advanced notice about changes in exclusively federal programs and existing shared cost programs. In the case of any new shared cost programs, the Agreement requires Ottawa to secure the consent of a majority of provinces before proceeding, and to provide for greater provincial flexibility within the program itself. Although the Agreement is purely administrative and lacks legal status, and although it does not radically alter the rules of the road, it does represent a nudge towards broader reliance on joint-decision processes.

Despite these developments, Ottawa was not been able to turn back the clock. The rupture of the mid-1990s had not healed, and the federal government has had difficulty reasserting a leadership role. Its greatest success was in the area of support for low-income families, where extensive negotiations produced a collaborative strategy designed to reduce child poverty and 'make work pay.' In a succession of coordinated steps, the federal government increased its child benefit, which goes directly to low- and middle-income families. Provincial governments agreed to reduce their social assistance benefits by the amount of the increase in the child benefit, and to reinvest the resulting savings in child-related services. Although the full transition is still incomplete, the ultimate goal is to take 'kids off welfare' and reduce the 'welfare wall'. Social assistance recipients would not lose all of their child-related benefits if they move into low-paid work; and the working poor would not have an incentive to leave work for welfare.[14] Intergovernmental collaboration was

[14] This reform represents the Canadian version of a wider trend in 'liberal' welfare states (see Myles/Pierson 1997; Battle/Mendelson 2001).

hardly perfect. Provinces did not always lower their welfare rates or reinvest savings in ways that met the spirit of the deal. Nevertheless, in contrast to the failure of the Social Security Review in the 1970s, the national children's strategy represented a modest intergovernmental success.

Health care has been much tougher. The federal government significantly increased its funding again in 1999, 2000 and 2002. But Ottawa has had extreme difficulty in regaining a leadership role. Efforts to attach conditions to the new money or to give priority to such areas as advanced technology, drug costs or long-term care have been frustrated by provincial resistance to federal direction. Even the creation of a federal-provincial Health Council, intended to monitor health programs and advise both levels of government, was a tough sell. Alberta refused to participate, and Quebec sends observers only. More generally, Ottawa faces a solid provincial coalition arguing that Canada faces severe fiscal imbalance and the first priority is to transfer significant tax room to the provinces. The prospects for new national social policy initiatives remain limited.

5 The impact of the welfare state on federalism

Federalism has clearly shaped Canadian social programs, in ways both pervasive and subtle. But, as noted at the outset, the relationship is reciprocal. The welfare state also reshaped the federal state. During the middle decades of the 20th century, responsibility for social policy gravitated to the federal government because of its greater economic and political strength. But as federal programs matured, they in turn reinforced the presence of the central government in the federation and in the daily lives of Canadians, and the weakening of the same programs in recent years has raised questions about the strength of the pan-Canadian political community.[15]

At the most obvious level, the postwar welfare state was a centralising force in the Canadian federation. Social policy sustained the fiscal power of the federal government in the decades after World War Two; rising social expenditures offset declining defence commitments, and legitimated federal dominance of the tax fields. Control over financial flows of this magnitude enabled the federal government to harmonise the tax regime for the country as a whole, and gave credibility to its commitment to Keynesian economic management in the postwar period (Perry 1997). As we have seen, postwar federal fiscal dominance did decline over the years. Deprived of the political legitimacy inherent in national social programs, however, federal fiscal power would have faded faster and further.

At a deeper level, social programs also played a role in defining the nature of the Canadian communities on which the federation rests. Ever since the introduction of social insurance by Bismarck in the 1880s, the welfare state has been recognised as an instrument of social integration in divided societies. In most countries, attention focuses on the role of social policy in mediating class divisions. In Canada, however, social programs are seen primarily as an instrument of territorial integration. National social programs create spheres of shared

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15 This section builds on Keith Banting 1995 and 1999.

experience in a country otherwise marked by territorial diversities, and strengthen the links between the central government and individuals across the country. While economic and cultural policies tend to pit the interests of one region against the other, the federal government can fashion appeals on social issues that cut across territorial divisions. In the 1960s, for example, federal Liberals saw social programs as "part of a strategy to strengthen the presence of the federal government and encourage 'nation' building in Canada" (Maioni 1998). The strategy worked. Many Canadians, especially in English Canada, have come to see Medicare and other national social programs as part of the Canadian identity, something that distinguishes them from their powerful neighbours to the south, and part of the social glue holding their vast country together.

The politics of territorial integration can be seen in the responses of two regions of the country to the postwar expansion of federal social programs: Atlantic Canada and Quebec. For the poorer provinces of Atlantic Canada, federal social programs were welcome instruments of interregional equality. Debates about interregional redistribution normally focus on the equalisation grants, which are designed to reduce the immense gap in the fiscal capacity of rich and poor provinces. Equally important, however, are the interregional transfers implicit in national social programs. The populations of poor regions have larger proportions of needy people who benefit from social programs, whereas taxpayers in those same regions provide a smaller proportion of the taxes that support them. Table 3 illustrates these dynamics in health care, examining levels of service and spending. The first three columns demonstrate that, although the supply of health professionals varies across provinces, poorer regions are not systematically disadvantaged in terms of doctors and nurses, whereas they are in dentistry which falls outside of the CHA. The next column shows that variations in per capita health expenditures are small, especially given differences in the costs of providing services in rich and poor areas. Moreover, the large variations in health expenditures as a portion of provincial GDP recorded in the last column would be insupportable without powerful instruments of interregional redistribution. Given these patterns, it is hardly surprising that politicians from Atlantic Canada were leading proponents of a strong central government. During the recurring negotiations over constitutional reform and the division of taxing authority from the 1950s to the 1980s, the Atlantic premiers repeatedly opposed proposals that would weaken the federal government. Indeed, they often advocated a stronger federal government than did federal officials themselves (Simeon 1972). The federal government could normally walk into a federal-provincial conference confident of the support of at least half of the voices at the table.

Table 3: *Health services and expenditures by province (2001)*

Province	***Health Professionals per 100,000***			***Health Expenditures***[1]	
	Nurses	***Doctors***	***Dentists***	***Per capita***	***% GDP***
Newfoundland	1,020	177	31	3,129	12.2
Prince Edward Island	912	136	44	2,865	11.7
Nova Scotia	906	200	49	2,972	11.6
New Brunswick	978	156	35	2,944	11.1
Quebec	787	213	54	2,870	9.5
Ontario	674	180	61	3,312	8.9
Manitoba	894	182	49	3,500	12.0
Saskatchewan	808	153	35	3,056	9.3
Alberta	743	167	55	3,163	6.6
British Columbia	664	197	65	3,260	10.2

1 Expenditures are for 2000.

Source: Canadian Institute for Health Information, *Health Indicators 2003* (Ottawa: CIHI, 2003).

In the 1980s and 1990s, however, the fading of the federal role in social policy has weakened these dynamics. Poorer provinces no longer have the same faith in the federal government as a champion of regional economic development and interregional redistribution. The repeated battles over unemployment insurance shook communities in eastern Canada; and the decline in federal transfers for programs such as health care have angered poor provinces as much as rich ones. As a result, the federal government can no longer count of the quasi-automatic support of poorer provinces in battles over social policy, and increasingly faces a united phalanx of angry provinces when issues surrounding the social role of the federal government emerge.

The integrative potential of national social programs was much more contested from the start in Quebec, in part because Quebec nationalists also saw social policy as an instrument of nation-building. For Quebec nationalists, social policy was a means of enhancing the linguistic and cultural distinctiveness of *québécois* society. In 1956, the Tremblay Commission described federal social programs as a form of cultural imperialism that would erode the province's distinctive character: "As far as the assimilation of French Canada is concerned, thirty years of social history will thus have had more effect than a century and a half of political history" (Royal Commission 1956: 130). After the 1960s, Quebec governments came to see social policy as central to the preservation and enhancement of a distinctive French-speaking community in North America. For Denis Saint-Martin, "there is a clear historical link between the development of the welfare state and the building of an identity for Quebeckers distinct from that of 'French-Canadians' or simply 'Canadians'" (Saint-Martin 2004). Nationalists also appreciated the economic power inherent in social policy, as the QPP illustrates. The partially funded plan created a pool of public capital that was invested in the economic development of the province. The government agency that manages the QPP fund, the *Caisse du dépôt and de placement du Québec*, emerged as the owner of the largest portfolio of common stocks in Canada and a critical purchaser of the bonds of public corporations engaged in major developments in the province, especially *Hydro Québec*. For Quebec nationalists, the *Caisse* symbolised a growing *québécois* presence in the world of public finance, a training ground for French-speaking financial executives, and a key instrument of provincial industrial strategy (Brooks/Tanguay 1985).

Competitive nation-building agendas helped fuel jurisdictional battles between the federal and Quebec governments during the 1960s and 1970s. As we have seen, Quebec struggled to recapture jurisdiction lost to the federal government during the decades of quiescence, opted out of a number of established programs, insisted on Quebec control over new programs, and continuously advocated formal limits to the federal spending power. However, federal authorities, especially during the long reign of Prime Minister Trudeau, were convinced that the federal government needed to remain relevant in the daily lives of Quebecers, and resisted a significant transfer of power to the provinces.[16] The intensity of conflict in this period can only be understood by appreciating the extent to which the two governments were competing to retain the loyalty of Quebecers, and enhance the political identity from which they draw institutional power, the pan-Canadian identity for the federal government and the *québécois* identity for the Quebec governent.

There is considerable debate about whether national social programs can, in fact, strengthen the Canadian identity in Quebec. Federal programs play a much less central role in defining political identities there than in English-speaking Canada. However, attitudinal studies show that most Quebecers retain a sense of attachment to Canada, which has both emotional and instrumental dimensions. At the emotional level, francophone Quebecers take pride in the Canadian system of health care and other social programs, a historical accomplishment which French- and English-speaking Canadians built together. At the instrumental level, the question of whether social programs are more effectively protected inside or outside Canada remains an important one, especially for less nationalist voters. The political importance of these linkages was etched sharply during the 1980 referendum on Quebec sovereignty. During the campaign, federal ministers campaigned vigorously on the implications for social programs, charging that independence would threaten the standard of living of voters and that an independent Quebec would not be able to sustain the social programs that they enjoyed as citizens of Canada. Monique Bégin, the federal minister of National Health and Welfare, repeatedly pointed to the interregional transfer implicit in federal social programs, and warned elderly voters that their GIS would probably disappear. The *Parti québécois* protested these tactics vehemently, but were on the defensive. On voting day, the referendum proposal was defeated by a decisive margin.

Retrenchment at the federal level weakened this role of social policy, as the 1995 referenda on Quebec secession revealed. The 1995 vote came after a decade of incremental federal cuts, and a mere six months after the draconian cuts imposed by the 1995 federal budget. Federal ministers could no longer pose as defenders of social benefits, and the separatist

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16 See the federal constitutional document (P.E. National Council of Welfare 2003, Vol. 119; Trudeau 1969).

forces took the offensive. During the first weeks of the campaign, the *Parti québécois* charged that only sovereignty could save pensions and other benefits, and this time the federalist forces were on the defensive, explaining why Quebecers should stay in a federation that cut their benefits. This referendum proved to be a near-death experience for federalist forces: the referendum was defeated by less than one percent of the vote. Obviously, the shift from a decisive federalist win in 1980 to a near loss in 1995 cannot be attributed solely or even primarily to the weakening of the federal presence in social policy. Fundamental issues of political identity and attachment were at the centre of the debate. Nevertheless, the two battles highlighted the strategic role that politicians attribute to social policy in the life and death of states.

The slow decline of the federal role in social policy during the last decade has triggered a search for other elements of Canadian life that can act as social glue holding Canada together. Some analysts take comfort in the belief that newer instruments such as the Charter of Rights and Freedoms are capable of breathing life into the sense of a pan-Canadian community, defining those elements that Canadians hold in common by virtue of their common citizenship. But others worry that the Charter does not define a strong social-policy dimension to citizenship, and that it creates its own tensions in Quebec nationalist circles. From this perspective, the federation confronts the future with a weaker set of bonds that tie.[17]

6 Conclusions

The story of the Canadian welfare state is, in part, a story about federalism. The structures of the federal state left their imprint on social programs, and help explain a number of puzzles about Canadian social policy: the slow start; the different ideological trajectories of income security and health care; and the uneven impact of restructuring in recent decades. These dynamics became enmeshed with the wider set of political and economic interests at work, and it is difficult to isolate the independent influence of political institutions. At a minimum, however, it is possible to identify the set of incentives and constraints embedded in the different models of federal-provincial relations, and to determine the direction of their influence.

Canadian experience adds confirmation to traditional interpretations of federalism and the welfare state. As in many countries, decentralisation slowed the early development of the welfare state. Provincial politicians in the interwar period felt constrained by the institutional framework in which they operated, and major breakthroughs had to wait for the expansion of the federal role after 1940. Undoubtedly, centralisation was not the only possible route forward, and it is interesting to perform a thought experiment by asking what would have happened if the federal-provincial balance had not shifted decisively during the Second World War. Provincial initiatives would undoubtedly have brought some progress

[17] Interestingly, efforts by the Quebec government to reduce its own social commitments in 2003-04 triggered a similar concern among Quebec nationalists: "dismantling the (Quebec) welfare state is seen, rightly or wrongly, as an attack on Quebeckers' collective identity" (Martin 2004).

in the postwar era, and pockets of radicalism, such as Saskatchewan on health care, might have survived. But the diffusion of major innovations across the country would have been deeply constrained by the mobility of capital and labour, the ideological diversity of provincial governments, and the inequality in fiscal capacity of rich and poor provinces. The expansion of the federal role facilitated a common tax and benefit regime, forged ideological compromises among key provinces, and substantially equalised the fiscal capacity of provinces. Without federal action, key landmarks of the Canadian welfare state would not exist on a country-wide basis. As we saw, Medicare would not have spread across the country, and health care in large parts of the country would have resembled the US model. Nor is it likely that contributory pensions would have emerged nation-wide. A decentralised Canada would have been a more unequal Canada.

In theory, one of the problems confronting a decentralised system – the inequality in fiscal capacity of provincial governments – could have been offset by an expanded equalisation grant sufficiently powerful to compensate for the interregional transfers implicit in direct federal transfers to citizens and shared-cost payments to provinces. The weakness in this strategy, however, would have been the political durability of such a grant. By making explicit and consolidating all of the implicit transfers, such a grant would have been the biggest – and perhaps the only – major federal 'social' program. Inevitably, it would have attracted even more critical attention from citizens and politicians in richer provinces than does the current program. In a decentralised Canada, residents of these regions would receive no social benefits from the federal government; they would never engage politically with their counterparts in poor regions to craft social programs that matter in their daily lives; and arguably, their sense of a common community and reciprocal obligation would have weakened over time. Interregional transfers are contested in all federations, and need powerful sponsors. The probability that a much weaker federal government, with no important involvement in the daily lives of Canadians, would be able to sustain a much stronger equalisation programs seems low. At a minimum, such an approach would have been a high risk strategy for poor regions. In all of this, Canadian history parallels experience elsewhere.

The real lesson from the Canadian story, however, is the ways in which it extends existing theories of the relationship between federalism and the welfare state. The traditional dichotomy between federal and non-federal states not only misses the complex differences across federations. It also misses the extent to which different social programs are governed by different processes within an individual federation. As we have seen, the Canadian federation embraces three distinct models of federalism: classical federalism, shared-cost federalism and joint-decision federalism. Each model generates its own decision rules, altering the range of governments and ideologies involved in shaping particular programs, redistributing power among the governments that are at the table, and requiring different levels of intergovernmental consensus for decisions. Under the classical model, governments operate independently in their own jurisdiction, behaving in their own domain much as unitary governments would do. The shared-cost model places greater emphasis on intergovernmental negotiation and agreement, but retains the potential for unilateral action by either level of government. Joint-decision federalism formally requires the agreement of both levels of government, precluding unilateral action and setting the bar high in terms of intergovernmental consensus. In Canada, these models of federalism created different interactions between institutions and policy. At any point in time, during both the years of expansion and the years of retrenchment, the same federal and provincial governments were shaping or reshaping different programs according to different rules, with different outcomes.

Clearly, progress requires typologies of types of federalism, and further analysis of the separate policy implications of the different types. But it is also important to understand that individual federal countries may fall into different categories of federalism, depending on the policy at stake. The consequences are potentially powerful, as Canadian pension programs illustrate. In the case of the OAS-GIS programs, federalism is largely irrelevant; in crafting and restructuring this part of the retirement income system, policy-makers behave much as they would if the country were governed through a unitary state. Requirements for intergovernmental consensus are minimal, if not zero. In the case of the C/QPP, federalism is central. A complex system of joint-decision increases the range of participants, diversifies the ideological voices at the table, bestows vetoes on particular participants, increases the level of consensus required, and locks this tier of the retirement income system into an evolutionary path. It is time for our theories to recognise that all forms of institutional fragmentation are not borne equal.

The other real lesson from the Canadian experience is the impact of the welfare state on federalism, a dynamic underappreciated in the existing literature. The expansion of social policy was a centralising force in Canadian political life, increasing the economic and political power of the central government, especially in the middle decades of the 20th century. But social policy also played a deeper role in the definition of community and the nurturing of political identities, a process highlighted by the competitive nation-building agendas of the federal and Quebec governments during the 1960s and 1970s, and by the anxieties triggered by the fading of the federal role in the last twenty years.

Contested identities radically increase the significance of the often mundane world of intergovernmental relations. Certainly in Canada, the co-existence of political identities has transformed the debate about the division of powers from a discourse about effectiveness into a discourse about community and national unity. Social programs became cultural instruments, and controversies over jurisdiction have taken on a political symbolism that has made their resolution more difficult. These debates continue today. Advocates of decentralisation of social programs see greater provincial jurisdiction as a means of accommodating the diversity of the country and eliminating a lingering source of tension between Canada and Quebec. Defenders of the federal role counter that decentralisation of social programs diminishes the role of the central government in the daily lives of Canadians, and erodes the underlying sense that, at some level, all citizens are part of a common political community with shared commitments to each other and a collective future.

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